

ORIGINAL

NEW APPLICATION



0000095884

BEFORE THE ARIZONA CORPORATION COMMISSION
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COMMISSIONERS

KRISTEN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
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Arizona Corporation Commission

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W-02527A-09-0201

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY UTILITIES WATER)
DIVISION INC. FOR A RATE INCREASE)
_____)

DOCKET NO. W-02527A-09-

Graham County Utilities, Inc. ("GCU") in support of its application states as follows:

1. GCU is a nonprofit cooperative corporation that provides water service to approximately 1,200 customers in Graham County, Arizona.

2. GCU is a Class C Utility as defined by A.A.C. R14-2-103, filed herewith and incorporated by reference, are the Schedules, Direct Testimony of Mr. John V. Wallace and other materials in support of its application. GCU stipulates that Commission may use its original cost less depreciation rate base for determining a return on fair value in this application. GCU's rate relief is premised upon its Times Interest Earned Ratio ("TIER") and Debt Service Coverage Ratio ("DSC").

3. By this Application, GCU seeks a revenue increase of approximately 24 percent over current rates. The proposed revenue increase would produce a rate of return of 8.54 percent on its rate base of \$2,398,139 and would yield an operating margin of \$204,779 before interest expense.

4. The reasons underlying the Company's request for an overall 24 percent increase include GCEC's investment of over \$1,000,000 in plant improvements and replacements since the June 30, 1997. Since its last test year GCU has incurred approximately

1 \$250,000 in advances of funds from Graham County Electric Cooperative, Inc. ("GCEC") to
2 fund its investments in plant improvements.

3 5. In GCU's last rate case, the Commission authorized a 17.24 percent
4 increase in gross annual revenues based on a test year ending June 30, 1997 (Decision No.
5 61056, dated August 6, 1998).

6 6. For the 12 months ended September 30, 2008, the test year in this case, the
7 present rates produced an operating margin of approximately \$60,447 before interest expense on
8 an adjusted test year basis.

9 7. GCU's proposed \$144,000 increase in revenues produces a positive
10 operating margin of \$204,779 before interest expense.

11 8. Given the lower margins that GCU is experiencing every month and
12 GCU's current negative financial position, GCU requests that the Commission process this
13 application and enter a decision as soon as possible.

14 WHEREFORE, having fully stated its Application, GCU requests that the
15 Commission enter its Order approving the requested rate increase, the new rates, fees and
16 charges set forth in the Application.

17
18 Further communications and notices concerning this Docket should be directed to:

19 John V. Wallace
20 GCSECA
21 120 North 44th Street, Suite 100
22 Phoenix, AZ 85034
Email: jwallace@gcseca.coop

23 With a copy to:

24 Russ Barney
25 GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
26 P. O. Drawer B
27 Pima, Arizona 85543
28 Email: russb@gce.coop

1 RESPECTFULLY SUBMITTED this 27th day of April, 2009.

2
3 By

A handwritten signature in black ink, appearing to read 'John V. Wallace', is written over a horizontal line.

4 John V. Wallace
5 Grand Canyon State Electric Cooperative Assn., Inc.
6 Consultant for Graham County Utilities, Inc.
7
8
9
10
11

12 **Original** and thirteen (13) copies filed
13 this 27th day of April, 2009, with:

14 Docket Control
15 Arizona Corporation Commission
16 1200 W. Washington
17 Phoenix, AZ 85007
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTEN K. MAYES, Chairman
GARY PIERCE
BOB STUMP
PAUL NEWMAN
SARAH KENNEDY

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY UTILITIES WATER)
DIVISION INC. FOR A RATE INCREASE)
)
_____)

DOCKET NO. W-02527A-09-

DIRECT

TESTIMONY

OF

JOHN V. WALLACE

GRAHAM COUNTY UTILITIES, INC.

WATER DIVISION

April 27, 2009

TABLE OF CONTENTS

	<u>Page</u>
Summary	
I. Introduction	1
II. Revenue Requirements.....	6
III. Cost of Service and Rate Design	8
IV. Line Extensions	12
V. Hook Up Fees	16

1 **I. INTRODUCTION**

2 Q. Please state your name address and occupation.

3 A. My name is John V. Wallace. I am the Director of Regulatory and Strategic Services of
4 Grand Canyon State Electric Cooperative Association ("GCSECA"). I am filing
5 testimony on behalf of Graham County Utilities, Inc. ("GCU" or "Cooperative").
6

7 Q. Please describe your professional qualifications and experience.

8 A. I have been the Director of Regulatory and Strategic Services since August 1, 2000. In
9 this position, I am responsible for preparing rate, financial and other utility related
10 analysis and testimony for the GCSECA member Arizona Electric Cooperatives. Before
11 I accepted a position with GCSECA, I worked for the Arizona Corporation Commission
12 ("ACC") for approximately 10 years. While working for the ACC, I held a number of
13 positions within the Accounting and Rates Section of the Utilities Division of the ACC;
14 the last of these positions was Manager, Revenue Requirements Analysis. In this
15 capacity, I was responsible for managing six analysts and preparing staff reports and
16 testimony on Certificate of Convenience and Necessity ("CC&N"), financing, rate and
17 other utility matters. In addition to my work experience, I have a Masters Degree in
18 Business Administration from the University of North Dakota.
19

20 Q. On whose behalf are you appearing in this proceeding?

21 A. I am appearing on behalf of the applicant, GCU Water Division. GCU Water Division is
22 a nonprofit cooperative corporation that provides Water service to approximately 1,200
23 customers in Graham County, Arizona.
24

25 Q. Was this testimony prepared by you or under your direction?

26 A. Yes, it was.
27
28

1 Q. What exhibits are you sponsoring in this case?

2 A. In addition to the schedules attached to this testimony, I am responsible for the
3 preparation of all the test year materials contained in GCU's filing, except for the
4 historical financial statements prepared by GCU and the report of its Certified Public
5 Accountants. I will be referring to these materials from time to time throughout my
6 direct testimony.
7

8 Q. What areas does your testimony address?

9 A. My testimony addresses four primary areas: revenue requirements, cost of service and
10 class revenue allocations, rate design.
11

12 Q. Please summarize your recommendations.

13 A. The main reason underlying the Company's request for an overall 23.94 percent increase
14 in revenues is due to the fact that since it's last Test Year ending June 30, 1997, GCU has
15 made over \$1 million in plant improvements and replacements. In addition Graham
16 County Electric Cooperative, Inc. ("GCEC") has completed its new office building so
17 GCU is receiving an annual allocation of \$15,050 of these costs. Since February of
18 2008, GCU has incurred \$172,360 in inter-company payables due to GCEC to fund its
19 investments in plant improvements. As a result, the amount of GCU's projected debt
20 service payments (principle and interest) has increased significantly. GCU has also
21 experienced increases in its other expenses such as salaries and benefits since its last Test
22 Year. An increase of this magnitude is needed to eliminate negative margins produced
23 by the current rates, to provide adequate interest and debt service coverage and to provide
24 the internally generated cash flows required to support the utility's on-going operations
25 and plant improvements.
26
27
28

1 Q. What is the relationship between GCU and GCEC?

2 A. GCEC manages the operations of GCU's Gas and Water Divisions pursuant to an
3 operations and management agreement. GCEC and GCU Gas and Water are operated as
4 separate and distinct entities from each other. Nevertheless, the same members (6 out of
5 9) serve on the Boards of Directors of both GCU and GCEC. GCU's employees have
6 offices in GCEC's building. GCEC will also advance funds to GCU when necessary.
7

8 Q. Please explain Schedule A-2 of the filing.

9 A. Schedule A-2, summarizes operating results at present and proposed rates for the 12
10 months ended September 30, 2008, the test year in this case. The present rates produced
11 an operating margin excluding interest expense of approximately \$60,447 on an adjusted
12 test year basis. The proposed \$145,652 increase in revenues (\$144,332 increase in Sales
13 of Water plus \$1,320 increase in Other Revenues) produces a positive operating margin
14 of approximately \$204,779.
15

16 Q. Do you view the indicated increase in revenues of approximately 24 percent at proposed
17 rates as reasonable in this case?

18 A. Yes. Cooperatives' revenue requirements are normally determined by the level of
19 operating expenses plus an additional amount of margin for interest coverage. GCU has
20 used an Operating Times Interest Earned Ratio ("TIER") of 1.75 (Debt Service Coverage
21 Ratio of 1.37) to determine the required level of revenues and revenue increase. Since
22 GCU's amount of interest on long term debt has and will continue to increase from its
23 previous Test Year amount, it is necessary for GCU to use an Operating TIER of 1.75
24 (DSC of 1.37) to set its revenue requirement. Finally, an Operating TIER of 1.75 is
25 necessary to maintain and increase GCU's equity level eventually to 30 percent which
26 has been required by the Commission Decision No. 69245, dated January 19, 2007.
27
28

1 Q. What factors besides its TIER did GCU use to determine its revenue requirement in this
2 case?

3 A. GCU has determined its proposed revenue requirement by considering the amount of
4 revenue necessary to maintain an Operating TIER of 1.75, to maintain a positive cash
5 flow after operating expenses, to fund plant improvements and maintenance, to maintain
6 its equity level and to fund contingencies. The requested increase in this case is
7 reasonable given its recent history of negative margins, and the need to produce positive

8 cash flows and maintain its equity level. GCU has considered and balanced these
9 financial considerations with a reasonable overall increase in revenues for its members.
10 Consistent with Decision No. 69245, GCU should be able to stabilize or perhaps steadily
11 increase its equity ratio using an Operating TIER of 1.75 even given its forecast for
12 higher margin losses in 2009.

13
14 Q. Please summarize your rate design recommendations.

15 A. Considering the Cost of Service Study ("COSS") prepared for the case and other factors,
16 I have based the rate design on customer class increases such that the residential class
17 receives approximately the same percentage of revenue increase as the approximately 24
18 percent overall increase in revenues, while the commercial and resale class receives an
19 increase that is higher than the 24 percent overall increase in revenues.

20
21 I am recommending a \$5.20 increase from \$16.80 to \$22.00 in the residential service
22 availability charge and a \$7.00 increase in the monthly minimum (service availability)
23 charges for the commercial class and a \$10.00 increase in the monthly minimum (service
24 availability) charges for the resale customer class.
25
26
27
28

1 The per gallon charges for each class were increased to a level that would result in the
2 residential class receiving approximately the same percentage of revenue increase as the
3 approximately 24 percent overall increase in revenues, while the commercial and resale
4 class receives an increase that is higher than the 24 percent overall increase in revenues.

5
6 I am recommending increases in the Establishment of Service charges for during and
7 after business hours, adding a charge for Reconnection of Service after hours and
8 increasing the return check charge. In addition, GCU is recommending that a \$5
9 minimum late payment fee apply to reduce the number of delinquent bills.

10
11 The present and proposed rate and charges are detailed on Schedule H-3.

12
13 GCU recommends that the Commission approve its proposed line extension policy that
14 eliminates the existing Advances in Aid of Construction and would treat all line
15 extensions costs as a non-refundable Contributions in Aid of Construction similar to the
16 GCU Gas Division proposed line extension policy.

17
18 Q. Is GCU requesting that the Commission process its application and enter a decision as
19 soon possible?

20 A. Yes, it is. Given the amount of negative margins that GCU is experiencing every month
21 and GCU's current negative financial position, GCU requests that the Commission
22 process this application and enter a decision as soon as possible. GCU has purposefully
23 limited the number of pro forma adjustments it has made in this case in an effort to limit
24 the issues that may arise in processing its case.

25
26
27
28

1 **II. REVENUE REQUIREMENTS**

2
3 Q. Please explain the original cost rate base (OCRB) calculation shown on Schedule B-1.

4 A. I am recommending that the Commission adopt an OCRB of \$2,398,139 for GCU. In an
5 effort to limit the potential issues that may arise during the processing of this case, I have
6 limited the number of pro-forma adjustments to Rate Base and Plant-in-Service. I have
7 made an adjustment increasing Net Plant-in-Service by a total of \$255,755 by decreasing

8 Accumulated Provision for Deprecation by a total \$255,755 to reflect the Depreciation
9 Rates approved in GCU's previous rate case (Decision No. 61056, dated August 6, 1998)

10
11 I have subtracted \$8,540 of customer deposits from the rate base. I have added the
12 construction work in progress that is currently Plant-in-Service, materials and supplies
13 and prepayments to GCU's rate base.

14
15 Q. Why hasn't GCU included its Reconstruction Cost New less Depreciation (RCND)
16 information (Schedules B-3 and B-4) in its application?

17 A. GCU stipulates that the Commission may use its original cost data for the calculation of a
18 rate of return on fair value for this proceeding. Therefore, the RCND information
19 contained on Schedules B-3 and B-4 is unnecessary for a determination in this matter.

20
21 Q. Please explain Schedule C-1 of the filing.

22 A. Schedule C-1 shows the actual and adjusted operating income statement for the test year.
23 As described on Schedule C-2, actual test year results were adjusted as follows:

24
25 A. Adjustment A. eliminates the \$24,407 of amortization of the acquisition adjustment
26 associated with GCU's original purchase of the water system from the depreciation
27 and amortization expenses. This adjustment was adopted in GCU's previous rate case
28 Decision No. 61056, dated August 6, 1998.

1
2 B. Adjustment B. increased depreciation and amortization expense by \$28,059 and
3 \$19,186 increase to Distribution Expense – Operations to allow depreciation and taxes
4 on the Pima Water Development Project. This project was needed to comply with the
5 Federal arsenic standard. By drilling new wells and adding a storage tank, GCU was
6 able to blend new well water with existing well water to lower the level of arsenic in
7 the water to below the Federal standard.

8
9 C. Adjustment C. decreased Interest Expense - LTD by \$6,658 to annualize the interest
10 on Pima Water Development Project.

11
12 D. Adjustment D. increases several expenses by a total of \$6,197 to annualize increases in
13 payroll, benefits and pensions costs.

14
15 E. Adjustment E. increases A&G expense by \$15,050 to annualize GCU's allocation of
16 the new office building.

17
18 F. Adjustment F. decreased Interest Expense-Other by \$2,555 to account for the fact that
19 GCU will be paying off the due to due from loan from GCEC. This adjustment also
20 recognizes \$14,901 of additional interest expense on the new long-term debt from
21 CFC.

22
23 G. Adjustment G. increased Rate (Case) Related Expense by \$4,000 for actual and
24 estimated rate case expenses that will be incurred in the preparation and completion of
25 this case. I have estimated the total amount of rate case expense of \$12,000 in this
26 case. I then amortized this expense over a three-year period given the projected
27 growth in GCU's service territory and the associated plant investments. Based on
28 these projections, GCU may need to file for a rate case in a few years.

1
2 H. Adjustment H. increased Other Water Revenues by \$1,320 for increases to Service
3 Charges and increased in Interest Income by \$3,285 for GCU's proposed \$5 minimum
4 late charge.

5
6 I. Adjustment I. decreased depreciation and amortization expense by \$28,617 to reflect
7 the depreciation rates approved in Decision No. 61056.

8
9 These adjustments reduce operating margins for the test year by \$15,594 resulting in
10 adjusted operating margins of \$60,447 before interest on long-term debt on Schedule C-1.
11

12 **III. COST OF SERVICE AND RATE DESIGN**

13
14 Q. Why should water rates be based upon cost of service?

15 A. Cost of service is an important criterion in the development of revenues by class of
16 consumer and the development of rates that will produce those revenues. If rates are not
17 cost based, the inevitable results may create subsidies among the classes of consumers
18 and consumers within a class. This is not only perceived as inequitable, but may result in
19 distorted consumer decisions concerning the use of utility services. Other factors, such as
20 customer class price sensitivity, continuity, simplicity and stability are valid
21 considerations in the rate design process and had to be considered given GCU's
22 circumstances.
23

24 Q. Did you prepare the class cost of service analysis contained in this filing?

25 A. Yes. The study was prepared to provide guidance in setting class revenue targets and
26 designing the rates required to meet these targets. The costing methodology used is
27 essentially the same as that used in GCU's last rate proceeding.
28

1 Q. Would you briefly describe the approach used to develop the study?

2 A. The basic method used in the study is commonly known as the embedded or average cost
3 method as contrasted with the marginal cost method. This method, properly applied,
4 produces a guide for ratemaking purposes.

5
6 The initial step was to establish, for costing purposes, consumer classes with similar
7 usage characteristics. For the purposes of present rates these classes are: residential

8 commercial, etc. The next step in the study was to classify all elements of rate base and
9 operating expenses as production-related, usage or commodity-related or customer-
10 related, etc. The results of this process are shown on Schedules G-3 through G-6. The
11 final step in the analysis was to allocate rate base and operating expenses to each class of
12 consumer. The results of these allocations are shown on Schedules G-1 and G-2. The
13 class allocation factors used in the study are provided on Schedule G-7.

14
15 Q. Please summarize the results of your study.

16 A. The results of my study, at present and proposed rates, are summarized on Schedules G-1
17 and G-2, respectively. At present rates, the overall system rate of return (ROR) on rate
18 base is 2.47 percent. All classes are producing positive returns. At present rates, the
19 residential class has a return of 2.09 percent. The commercial class has a return of 5.58
20 percent. The resale class has a positive return of 3.25 percent.

21
22 Q. Typically the cost of service study is used as the basis to allocate revenues among
23 customer classes. Did you use the cost of service study to allocate revenues to customer
24 classes?

25 A. Yes. However, GCU's circumstances merit a deviation from strictly using the cost of
26 service study to set rates for the reasons stated in my testimony.
27
28

1 Q. How did you allocate revenues to the customer classes?

2 A. I have based the rate design on customer class increases such that the residential receives
3 approximately the same percentage of revenue increase as the approximately 24 percent
4 overall increase in revenues, while the commercial and resale class receives an increase
5 that is higher than the 24 percent overall increase in revenues. This is mainly due to
6 maintaining the same per gallon charge for the residential and commercial classes. The
7 residential class revenues were increased by 23.34 percent, and the commercial and resale

8 classes revenues were increased by 28.29 and 26.92 percent, respectively, as shown on
9 Schedule H-1.

10
11 Q. What monthly minimum system (service availability) charges are you recommending by
12 customer class and why?

13 A. I am proposing increases to the present monthly minimum service charges for the
14 various classes. I am recommending the residential class service availability charge be
15 increased by 5.20 increase from \$16.80 to \$22.00 and a \$7.00 increase in the monthly
16 minimum (service availability) charges for the commercial class and a \$10.00 increase in
17 the monthly minimum (service availability) charges for the resale customer class.
18 I am recommending that remaining revenue requirement be collected by increasing the
19 per gallon rates for each class. (Refer to Schedule H-3)

20
21 I am recommending the monthly service availability charges be increased because of the
22 following reasons. The first is the majority of the GCU's distribution related costs are
23 fixed and do not vary with the number of gallons used. The second reason is that using
24 fixed charges to collect fixed costs helps to alleviate cash flow shortages and surpluses
25 that result from a rate design that is heavily weighted toward a per gallon charge.
26 Changes in the number of gallons sold after the Test Year due to weather and other
27 factors can have a dramatic affect on a utilities' financial condition. GCU's fixed costs
28 for serving each customer class are significantly higher than GCU's monthly minimum

1 service charges. In addition, GCU will collect a more even revenue stream during
2 summer versus winter months.

3
4 Q. How were the per gallon charges determined in each customer class?

5 A. The commercial and resale classes receive a higher percentage of revenue increase than
6 the approximately 24 percent overall increase in revenues and the residential class
7 receives approximately the same increase as the overall increase in revenues of 24

8 percent. This is mainly due to maintaining the same per gallon charge for the residential
9 and commercial classes.

10
11 Q. What per gallon rate is GCU recommending for the residential customer class?

12 A. I am recommending the per gallon rate for residential service be increased by \$0.42 from
13 \$2.55 to \$2.97. The monthly bill for a residential customer who uses approximately
14 9,000 gallons will increase by \$8.98 (22.59%), from \$39.75 to \$48.73. Residential
15 customers who use more (less) than 9,000 gallons per month will experience a lower
16 (higher) percent increase due to the level of the higher percentage increase in the monthly
17 service availability charge versus the gallon charge. (Refer to Schedule H4, Page 1 of 2.)
18

19 Q. What per gallon rate is GCU recommending for the commercial class?

20 A. I am recommending the per gallon rate for commercial service be increased by \$0.42
21 from \$2.55 to \$2.97. Under GCU's proposed rates, the monthly bill for a commercial
22 customer who uses approximately 15,000 gallons will increase by \$13.30 (21.71%), from
23 \$61.25 to \$74.55. Commercial customers who use more (less) than 15,000 gallons per
24 month will experience a lower (higher) percent increase due to the level of the higher
25 percentage increase in the monthly system charge versus the gallon charge. (Refer to
26 Schedule H4, page 2 of 2.)
27
28

1 Q. What per gallon rate is GCU recommending for the resale class?

2 A. I am recommending the per gallon rate for resale service be increased by \$0.44 from
3 \$1.51 to \$1.95. Under GCU's proposed rates, the monthly bill for a resale customer who
4 uses approximately 919,250 gallons will increase by \$417.78 (29.05%), from \$1,438.07
5 to \$1,855.85. (Refer to bottom of Schedule H4, page 2 of 2.)
6

7 Q. What changes to service charges is GCU recommending?

8 A. I am recommending that the Establishment of Services charges for regular business hours
9 be increased from \$15 to \$20, Establishment of Services after hours be increased from
10 \$22.50 to \$50 and a new charge of \$50.00 apply to reconnection after hours service calls.
11 These service charges should be increased to reflect the increased costs (labor, materials,
12 overheads, etc.) of providing those services.
13

14 GCU is also recommending that its insufficient funds check charge be increased from
15 \$20 to \$25 to reflect the higher costs of such checks and to correspond to the Electric and
16 Gas Department charges for NSF checks.
17

18 Finally, to decrease the number of delinquent bills, GCU is recommending a \$5 minimum
19 late payment charge be approved along with the current late charge of 1.5 % The \$5
20 minimum charge or 1.5 % late charge, whichever is greater would be paid by all
21 customers who do not pay their bills by the deadline. GCU does not believe that the
22 current late charge of 1.5 % is high enough to deter customers from paying their bills late.
23

24 **IV. Line Extensions**

25 Q. Please discuss GCU's line extension policy that was approved in Decision No. 58437
26 dated October 18, 1993.

27 A. In compliance with rate case Decision No. 58437, GCU filed a line extension policy that
28 set the service line and meter installation charges for the various pipe sizes.

1
2 Q. Has GCU been following the line extension policy approved in Decision No. 58437 dated
3 October 18, 1993 and charging the service line and meter installation charges approved in
4 its last rate case Decision No. 61056

5 A. GCU discovered during the preparation of this rate case that its employees were not
6 correctly following its line extension policy or charging the service line and meter
7 installation charges approved in Decision No. 61056. GCU does not know the date that it

8 began incorrectly charging customers for line extensions. Shortly after making this
9 discovery, in January of 2009, GCU instructed all of its employees to begin following
10 GCU's line extension policy that was approved in Decision No. 58437 and charging the
11 service line and meter installation charges approved in Decision No. 61056.

12
13 Q. How have GCU's employees been treating line extensions?

14
15 A. Whenever a customer requested a service line or main line extension, an estimate was
16 prepared that would recover a portion of the labor and material costs excluding the cost
17 of the meter. Material cost was estimated for the line extension based on the number of
18 feet and other material that will be used. A \$0.91 per foot charge was also included to
19 cover labor expense. A credit of \$100 was given back to the customer on each line
20 extension that was completed.

21
22 GCU believes that the \$100 credit amount was the average cost of the extension at the
23 point in time which it began to incorrectly charge customers for line extensions.
24 Consequently, GCU has been charging customers a Contribution in aid of Construction
25 ("CIAC") for a portion of the costs of a line extension that were over \$100. Only
26 customers with line extensions that cost more than \$100 were affected by GCU not
27 following its line extension policy.
28

1 Q. Does GCU know the date that it began to incorrectly charge its customers for line
2 extensions?

3 A. GCU does not know the date that it began incorrectly charging customers for line
4 extensions. Since the date of Decision No. 58437, GCU's number of customers has
5 increased from approximately 800 to 1,200. Without reviewing hundreds of line
6 extension estimates/agreements, GCU can not exactly determine the date it began to
7 incorrectly charge, the total amount that customers have been over-charged or the amount

8 each customer has been overcharged.

9
10 Q. Can GCU estimate the number of customers and the amounts that have been incorrectly
11 charged for line extension costs since January 1, 2004?

12 A. Yes. GCU has this information in an electronic file. Before this date, if this information
13 is available, it will most likely only be available from written records. GCU concluded
14 that it would be reasonable to review the line extensions that had occurred after
15 December 31, 2003.

16
17 Q. What is GCU's estimate of the number of customers and the amounts that have been
18 incorrectly charged for line extension costs since its last test year?

19 A. GCU has estimated that since January 1, 2004, that it over-charged customers who
20 needed line extensions by a total amount of \$15,538. As of March 25, 2009, the amount
21 of refunds due for main line extensions is \$2,776, resulting in GCU overcharging its
22 customers by a total of \$18,314. Since January 1, 2004, GCU has completed
23 approximately 100 line extensions. On average, approximately \$173 is owed to
24 approximately 90 individual customers/developers that were over-charged.
25
26
27
28

1 Q. Did GCU collect the complete cost of the line extension from the customers who were
2 over-charged?

3 A. No it did not. Since January 1, 2004, GCU has only collected 31 percent of the costs
4 associated with line extensions from customers and has had to fund additional line
5 extension costs of \$77,123 despite the fact that it over-charged customers for line
6 extensions.
7

8 Q. What is the financial impact to GCU and members of having charged this \$18,314
9 amount to customers who needed line extensions?

10 A. Regarding the financial impact to the existing customers that both did and did not have
11 extensions, collecting a higher amount of the costs associated with line extensions has
12 reduced the amount of debt that GCU must borrow by \$18,314 which benefited all of
13 GCU's existing customers that did and did not require line extensions. In addition, this
14 \$18,314 amount would have been considered plant in this case and would have
15 depreciation expense and property taxes associated with it that all customers would pay
16 through future rates.
17

18 Q. Is GCU able to refund the total amount to those customers that were over-charged since
19 the date it began incorrectly charging customers for line extensions?

20 A. Without reviewing the hundreds of line extension estimates/agreements, GCU can not
21 exactly determine the total amount and what should be refunded to each individual
22 customer/developer that was over-charged. In some cases, GCU may have only charged
23 a small amount over the \$100 credit it gave to customers. More recent line extensions
24 cost a significantly higher amount than older line extensions because of increases in
25 material and labor charges. These factors make it unfair for GCU to refund an
26 average/same amount to all customers who were overcharged. GCU would be refunding
27 these amounts using the general funds of GCU which will further impact the cash-flows
28 of GCU. GCU would also need to reclassify the amount over-charged from CIAC to

Plant-in-Service, calculate a depreciation component and borrow additional funds with an associated interest component for the refund that would be paid by all customers on this reclassified CIAC. All of these factors make it difficult for GCU to propose a refunding strategy for all customers who were overcharged that is reasonable and fair.

Q. In the future, what steps will be taken by the management of GCU to ensure all of the GCU's Tariffs and Rules and Regulations are being followed by GCU employees?

A. Once the Commission has made a determination in this case, GCU's management intends to hold a training event with its employees that will cover all of the GCU's Tariffs and Rules and Regulations. These training events will be held periodically and as new employees are hired.

Q. Has GCU recommended that the all Advances in Aid of Construction ("AIAC") be eliminated in its proposed line extension policy?

A. Yes it has. GCU recommends that the Commission approve its proposed line extension policy that eliminates all AIAC. This policy will require all new customers who need line extensions to pay the total cost of these extensions in the form of a CIAC. As discussed above, any line extension costs that are not recovered from customers who require line extensions will be recovered from all customers.

V. HOOK UP FEES

Q. Has GCU analyzed and considered the use hook-up fees as a way to off-set the incremental costs associated with the customer growth in its service territory?

A. Yes, it has. GCU has analyzed several different levels of hook up fees and their effects on GCU's revenue requirement.

1 Q. Is GCU recommending the use hook-up fees as a way to off-set the incremental costs
2 associated with the customer growth in its service territory?

3 A. Yes, it is. Between the years 2004 and 2008, GCU has experienced significant growth in
4 number of customers. GCU has required the investment in resizing back bone plant like
5 wells, pumps and storage to serve new developments and customers. In the future, the
6 main portion of GCU's mains, service lines and meters will be recovered by GCU's
7 proposed line extension policy. However the costs associated with expansion of GCU's

8 back bone distribution system such as new wells, storage and pumps and resizing existing
9 mains to serve new customers will primarily be recovered from existing not new
10 customers. In conclusion, GCU has concluded that developers and customers should pay
11 a portion of the new wells, storage and pumps and resizing existing mains costs
12 associated serving new customers through a \$500 hook-up fee. While GCU believes it
13 could cost justify a hook-up fee greater than \$500, it believes that given its proposed line
14 extension policy in this case that developers and customers will already bear the
15 additional cost of line extensions if the ACC approves GCU's recommendation to
16 eliminate AIAC for line extensions.

17
18 Q. Does that conclude your direct testimony?

19 A. Yes, it does.
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TAB NO.	TITLE
A.	SUMMARY SCHEDULES
A-1	Computation of Increase in Gross Revenue Requirements
A-2	Summary Results of Operations
A-3	Summary of Capital Structure
A-4	Construction Expenditures and Gross Utility Plant in Service
A-5	Comparative Statement of Cash Flows
B.	RATE BASE SCHEDULES
B-1	Summary of Original Cost and RCND Rate Base Elements
B-2	Original Cost Rate Base Pro Forma Adjustments
B-3	RCND Rate Base Pro Forma Adjustments
B-4	RCND by Major Plant Accounts
B-5	Computation of Working Capital
C.	TEST YEAR INCOME STATEMENTS
C-1	Adjusted Test Year Income Statement
C-2	Income Statement Pro Forma Adjustments
C-3	Computation of Gross Revenue Conversion Factor
D.	COST OF CAPITAL
D-1	Summary Cost of Capital
D-2	Cost of Long-Term and Short-Term Debt
D-3	Cost of Preferred Stock
D-4	Cost of Common Equity
E.	FINANCIAL STATEMENTS AND STATISTICAL SCHEDULES
E-1	Comparative Balance Sheets
E-2	Comparative Income Statements
E-3	Comparative Statement of Cash Flows
E-4	Statement of Changes in Members' Equity
E-5	Detail of Utility Plant
E-6	Comparative Departmental Operating Income Statements
E-7	Operating Statistics
E-8	Taxes Charged to Operations
E-9	Notes to Financial Statements
F.	PROJECTIONS AND FORECASTS
F-1	Projected Income Statements - Present and Proposed Rates
F-2	Projected Statement of Cash Flows
F-3	Projected Construction Requirements
F-4	Assumptions Used in Developing Projections
G.	COST OF SERVICE ANALYSES
G-1	Cost of Service Summary - Present Rates
G-2	Cost of Service Summary - Proposed Rates
G-3	Rate Base Allocation to Classes of Service
G-4	Expense Allocation to Classes of Service
G-5	Distribution of Rate Base by Function
G-6	Distribution of Expenses by Function
G-7	Development of Allocation Factors
H.	EFFECT OF PROPOSED TARIFF SCHEDULES
H-1	Summary of Revenues by Customer Classification Present and Proposed Rates
H-2	Analysis of Revenue by Detailed Class
H-3	Changes in Representative Rate Schedules
H-3-1	GCU Proposed Rate Schedule
H-4	Typical Bill Analysis
H-5	Bill Count
	GCU PROPOSED RULES AND REGULATIONS
I.	RUS ANNUAL FORM 7
	For Years Ended December 31, 1998 through December 31, 2008
J.	REPORT OF CERTIFIED PUBLIC ACCOUNTANT
	For Years Ended September 30, 1998 through September 30, 2008

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM

SCHEDULE A-1

COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS

TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

ORIGINAL COST

1. ADJUSTED RATE BASE	2,398,139 (a)
2. ADJUSTED OPERATING MARGINS	60,447 (b)
3. CURRENT RATE OF RETURN	2.52%
4. REQUIRED OPERATING MARGINS	204,779
5. REQUIRED RATE OF RETURN	8.54%
6. OPERATING INCOME DEFICIENCY	144,332

<u>CUSTOMER CLASSIFICATION</u>	<u>PROJECTED REVENUE INCREASE DUE TO RATES</u>	<u>% DOLLAR INCREASE</u>
RESIDENTIAL	121,518	23.34%
COMMERCIAL	13,684	28.29%
RESALE	9,129	26.92%
TOTALS	144,332	23.94%
	(c)	(c)

SUPPORTING SCHEDULES:

(a) B-1 (c) H-1
(b) C-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM

SCHEDULE A-2

SUMMARY RESULTS OF OPERATIONS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

	PRIOR YEARS		TEST YEAR		ENDED 9/30/08		PROJECTED YEAR	
	ENDED 9/30/06	ENDED 9/30/07	ACTUAL	ADJUSTED	PRESENT	PROPOSED		
	(a)	(a)	(a)	(b)	(c)	(c)		
1. Gross Revenues	566,118	585,294	606,953	608,273	608,273	752,605		
2. Revenue Deductions & Operating Exp.	451,646	484,992	530,912	547,826	547,826	547,826		
3. Operating Margins (before interest on LTD)	114,472	100,302	76,041	60,447	60,447	204,779		
4. Interest Expense - LTD	76,445	67,694	108,791	117,034	117,034	117,034		
5. Other Margins & Deductions	16,164	10,959	7,674	10,959	10,959	10,959		
6. Net Margins	54,191	43,567	(25,076)	(45,628)	(45,628)	98,704		
7. Loan Principle Payments	84,587	89,183	94,627	99,097	99,097	99,097		
8. Times Interest Earned (on operating margins)	1.50	1.48	0.70	0.52	0.52	1.75		
9. Debt Service Coverage (on operating margins)	1.37	1.31	0.95	0.71	0.71	1.37		

SUPPORTING SCHEDULES:

(a) E-2 (c) F-1

(b) C-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM

**SUMMARY OF CAPITAL STRUCTURE SCHEDULE A-3
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008 PRO FORMA**

	PRIOR YEARS		TEST YEAR	YEAR
	9/30/2006	9/30/2007	9/30/2008	9/30/2008
	(a)	(a)	(a)	(b)
Short-Term Debt	-	-	-	-
Long-Term Debt	1,216,795	1,890,113	2,005,664	2,024,141
Total Debt	1,216,795	1,890,113	2,005,664	2,024,141
Margins And Equity	213,767	257,334	232,258	232,258
Total Capital	1,430,562	2,147,447	2,237,922	2,256,399
Capitalization Ratios: (%)				
Short-Term Debt	0.00%	0.00%	0.00%	0.00%
Long-Term Debt	85.06%	88.02%	89.62%	89.71%
Total Debt	85.06%	88.02%	89.62%	89.71%
Margins And Equity	14.94%	11.98%	10.38%	10.29%
	100.00%	100.00%	100.00%	100.00%
Weighted Cost of Due to G.C.E.	0.00%	0.00%	4.75%	5.25%
Weighted Cost of Long-Term Debt	5.56%	5.86%	4.89%	4.83%

SUPPORTING SCHEDULES:

(a) E-1

(b) D-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**CONSTRUCTION EXPENDITURES AND GROSS UTILITY PLANT IN SERVICE****TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008****SCHEDULE A-4**

<u>YEAR</u>	<u>CONSTRUCTION EXPENDITURES (a)</u>	<u>NET PLANT ADDITIONS (b)</u>	<u>GROSS UTILITY PLANT IN SERVICE</u>
Test Year Ended 6/30/97			1,749,875
Test Year Ended 9/30/97	(5,737)	(5,737)	1,744,138
Test Year Ended 9/30/98	298,123	298,123	2,042,261
Test Year Ended 9/30/99	252,526	252,526	2,294,787
Test Year Ended 9/30/00	18,071	18,071	2,312,858
Test Year Ended 9/30/01	8,997	8,997	2,321,855
Test Year Ended 9/30/02	169,834	169,834	2,491,689
Test Year Ended 9/30/03	36,512	36,512	2,528,201
Test Year Ended 9/30/04	20,621	20,621	2,548,823
Test Year Ended 9/30/05	36,701	36,701	2,585,524
Test Year Ended 9/30/06	20,835	20,835	2,606,359
Test Year Ended 9/30/07	131,464	131,464	2,737,823
Test Year Ended 9/30/08	89,246	89,246	2,827,069
Projected Test Year Ended 9/30/09	1,210,518	1,210,518	4,037,588
Projected Test Year Ended 9/30/10	25,000	25,000	4,062,588
Projected Test Year Ended 9/30/11	25,000	25,000	4,087,588

SUPPORT SCHEDULES:

(a) F-3

(b) E-5

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COMPARATIVE STATEMENT OF CASH FLOWS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE A-5

	PRIOR YEAR	PRIOR YEAR	TEST YEAR	PRESENT	PROJECTED
	<u>9/30/2006</u>	<u>9/30/2007</u>	<u>9/30/2008</u>	<u>RATES</u>	<u>PROPOSED</u>
	<u>(a)</u>	<u>(a)</u>	<u>(a)</u>	<u>(b)</u>	<u>RATES</u>
				<u>(b)</u>	<u>(b)</u>
CASH FLOWS					
FROM OPERATING ACTIVITIES:					
Net Margins (Deficits)	54,191	43,567	(25,076)	(45,628)	98,704
Depreciation and Amortization	106,303	105,982	117,105	117,105	117,105
Capital Credits - Noncash	(7,960)	(1,906)	(1,192)	(1,192)	(1,192)
Deferred Charges	3,430	3,429	3,430	3,430	3,430
Accounts Receivable	6,923	(6,685)	7,485	7,485	7,485
Inventories and Other Current Assets	(30,342)	11,500	7,835	7,835	7,835
Payables and Accrued Expenses	28,046	(13,089)	17,174	17,174	17,174
Advances - Gas Department	118,440	(132,812)	160,862	160,862	160,862
Advances - GCEC	(2,229)	(40,155)	109,291	176,794	18,083
FROM OPERATING ACTIVITIES:	276,802	(30,169)	396,914	443,865	429,486
FROM INVESTING ACTIVITIES					
Additions to Plant/Purchase of Property	(204,251)	(634,732)	(512,839)	(512,839)	(512,839)
Patronage Capital Retirement - CFC	12,469	6,866	7,550	7,550	7,550
FROM INVESTING ACTIVITIES	(191,782)	(627,866)	(505,289)	(505,289)	(505,289)
FROM FINANCING ACTIVITIES:					
Payments on Note Payable - AEPCO	(22,000)	(22,000)	(20,166)	(20,166)	(20,166)
Payments on Long-Term Debt - CFC	(54,299)	(183,319)	(59,831)	(59,831)	(59,831)
Advances from USDA Rural Development	-	893,722	206,278	206,278	206,278
Payments on Other Long-Term Debt	(8,288)	(8,684)	(14,630)	(14,630)	(14,630)
Payment of Capital Credits	-	-	-	-	-
FROM FINANCING ACTIVITIES:	(84,587)	679,719	111,651	111,651	111,651
INCREASE (DECREASE) IN CASH	433	21,684	3,276	50,227	35,848
CASH - BEGINNING OF YEAR	19,124	19,557	41,241	41,241	41,241
CASH - END OF YEAR	19,557	41,241	44,517	91,468	77,089

SUPPORT SCHEDULES:

- (a) E-3
- (b) F-2

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008
SUMMARY OF ORIGINAL COST**

SCHEDULE B-1

ORIGINAL COST

RATE BASE

1. GROSS UTILITY PLANT IN SERVICE	3,402,418
2. LESS: ACCUMULATED DEPRECIATION	(1,058,811) (a)
3. NET UTILITY PLANT IN SERVICE	2,343,607 (a)
LESS:	
4. CUSTOMERS' ADVANCES IN AID TO CONSTRUCTION	-
5. CONTRIBUTION IN AID TO CONSTRUCTION	-
6. ALLOWANCE FOR WORKING CAPITAL	54,531 (b)
7. TOTAL RATE BASE	2,398,139 (c)

SUPPORTING SCHEDULES:

(a) B-2 (b) B-5

RECAP SCHEDULES:

(c) A-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
ORIGINAL COST RATE BASE
PRO FORMA ADJUSTMENTS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE B-2

	ACTUAL AT END OF TEST YEAR 9/30/08 (a)	PRO FORMA ADJUSTMENTS 9/30/08 (c)	ADJUSTED AT END OF TEST YEAR 9/30/08 (b)
<u>INTANGIBLE PLANT:</u>			
NET PLANT	37,708		37,708
<u>PRODUCTION</u>			-
GROSS PLANT	578,444		578,444
ACCUMULATED DEPRECIATION	(409,386)	10,220	(399,165)
NET PLANT	169,059	10,220	179,279
<u>DISTRIBUTION:</u>			-
GROSS PLANT	1,489,296		1,489,296
ACCUMULATED DEPRECIATION	(824,248)	215,697	(608,551)
NET PLANT	665,049	215,697	880,746
<u>GENERAL & INTANGIBLE</u>			-
GROSS PLANT	111,451		111,451
ACCUMULATED DEPRECIATION	(80,952)	29,857	(51,095)
NET PLANT	30,499	29,857	60,356
<u>ACQUISITION ADJUSTMENT</u>			-
GROSS ADJUSTMENT	610,168		610,168
ACCUMULATED AMORTIZATION	(463,727)		(463,727)
NET ACQUISITION ADJUSTMENT	146,441		146,441
<u>TOTAL</u>			-
GROSS PLANT	2,827,068	-	2,827,068
ACCUMULATED DEPRECIATION	(1,778,313)	255,775	(1,522,539)
NET PLANT	1,048,755	255,775	1,304,529
CWIP	1,185,518		1,185,518
PER FORM 7	2,234,273	255,775	2,490,048
<u>RATE BASE PLANT</u>			-
GROSS PLANT	2,216,900	-	2,216,900
ACCUMULATED DEPRECIATION	(1,314,586)	255,775	(1,058,811)
NET PLANT	902,314	255,775	1,158,089
CWIP	1,185,518	-	1,185,518
NET PLANT	2,087,833	255,775	2,343,607
<u>PROOF:</u>			
TOTAL PLANT PER FORM 7	4,012,586		4,012,586
LESS: ACQUISITION ADJUSTMENT	(610,168)		(610,168)
LESS: ACCUMULATED DEPRECIATION	(1,778,313)		(1,778,313)
ADD: ACCUMULATED AMORTIZATION	463,727		463,727
ADD: ACCUMULATED DEPR. ADJUSTMENT		255,775	255,775
NET PLANT	2,087,833	255,775	2,343,607

SUPPORT SCHEDULES:

(a) E-5
(c) Adj.Depr Worksheet

RECAP SCHEDULES:

(b) B-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
RCNF RATE BASE PRO FORMA ADJUSTMENTS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SCHEDULE B-3

NOT APPLICABLE

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
RCND BY MAJOR PLANT ACCOUNTS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SCHEDULE B-4

NOT APPLICABLE

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COMPUTATION OF WORKING CAPITAL
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SCHEDULE B-5

1. CASH WORKING CAPITAL (1)	
2. MATERIALS AND SUPPLIES INVENTORIES	51,158 (a)
3. PREPAYMENTS	11,914 (a)
4. LESS CUSTOMER DEPOSITS	(8,540) (a)
4. TOTAL WORKING CAPITAL ALLOWANCE	54,531 (b)

(1) O&M EXPENSE 1/8

CUSTOMER CLASSIFICATION

RESIDENTIAL
COMMERCIAL
RESALE
TOTALS

**ALLOCATION TO
RATE BASE**

45,086
4,276
5,169
54,531

SUPPORT SCHEDULES:

(a) E-1

RECAP SCHEDULES:

(b) B-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
ADJUSTED TEST YEAR INCOME STATEMENT
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE C-1

	TEST YEAR 9/30/2008 (a)	PRO FORMA ADJUSTMENTS (b)	ADJUSTED TEST YEAR
<u>REVENUES</u>			
SALES OF WATER	602,983	-	602,983
OTHER WATER REVENUE	3,970	1,320	5,290
	606,953	1,320	608,273
<u>EXPENSES</u>			
PUMPING WATER	32,595	-	32,595
DISTRIBUTION EXPENSE - OPERATIONS	37,693	20,109	57,801
DISTRIBUTION EXPENSE - MAINTENANCE	149,947	2,640	152,586
CONSUMER ACCOUNTS EXPENSE	55,169	1,458	56,628
ADMINISTRATIVE & GENERAL	98,846	20,227	119,073
DEPRECIATION & AMORTIZATION	117,105	(24,965)	92,140
TAX EXPENSE - PROPERTY	20,216	-	20,216
TAX EXPENSE - OTHER	13,521	-	13,521
INTEREST EXPENSE - OTHER	5,820	(2,555)	3,265
	530,912	16,914	547,826
OPERATING MARGINS	76,041	(15,594)	60,447 (c)
INTEREST EXPENSE - LTD	108,791	8,243	117,034
<u>NON-OPERATING MARGINS</u>			
INTEREST INCOME	3,700	3,285	6,985
CAPITAL CREDITS	3,974	-	3,974
	7,674	3,285	10,959
NET MARGINS	(25,076)	(20,552)	(45,628)

SUPPORT SCHEDULES:

(a) E-2

(b) C-2

RECAP SCHEDULES:

(c) A-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
INCOME STATEMENT PRO FORMA ADJUSTMENTS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SCHEDULE C-2

DESCRIPTION	PRO FORMA ADJUSTMENTS								
	A	B	C	D	E	F	G	H	I TOTAL (a)
<u>REVENUES</u>									
SALES OF WATER								1,320	-
OTHER WATER REVENUE								1,320	-
	-	-	-	-	-	-	-	1,320	1,320
<u>EXPENSES</u>									
PUMPING WATER									-
DISTRIBUTION EXPENSE - OPERATIONS		19,186		923					20,109
DISTRIBUTION EXPENSE - MAINTENANCE				2,640					2,640
CONSUMER ACCOUNTS EXPENSE				1,458					1,458
ADMINISTRATIVE & GENERAL				1,177					20,227
DEPRECIATION & AMORTIZATION					15,050		4,000		(24,965)
TAX EXPENSE - PROPERTY	(24,407)	28,059							(28,617)
TAX EXPENSE - OTHER									-
OTHER DEDUCTIONS									-
INTEREST EXPENSE - OTHER						(2,555)			(2,555)
	(24,407)	47,245	-	6,197	15,050	(2,555)	4,000	-	(28,617)
	24,407	(47,245)	-	(6,197)	(15,050)	2,555	(4,000)	1,320	(15,594)
			(6,658)			14,901	-	-	8,243
<u>OPERATING MARGINS</u>									
INTEREST EXPENSE - LTD									-
NON-OPERATING MARGINS									3,285
INTEREST INCOME									-
CAPITAL CREDITS									-
<u>NET MARGINS</u>									
	24,407	(47,245)	6,658	(6,197)	(15,050)	(12,346)	(4,000)	4,605	28,617
									(20,552)

SUPPORTING SCHEDULES:

- A - TO ELIMINATE AMORTIZATION ON ACQUISITION ADJUSTMENT PER DECISION NO. 58437
- B - TO RECORD DEPRECIATION AND TAXES ON PIMA WATER DEVELOPMENT
- C - TO ANNUALIZE INTEREST ON PIMA WATER DEVELOPMENT
- D - TO ADJUST FOR 3% SALARY INCREASE AND PAYROLL BENEFITS
- E - TO ANNUALIZE RENT EXPENSE OF NEW OFFICE BUILDING
- F - TO ANNUALIZE INTEREST ON NEW CFC CONSTRUCTION LOAN
- G - TO ADJUST FOR ACTUAL AND ESTIMATED RATE CASE EXPENSE
- H - TO RECORD INCREASE IN SERVICE CHARGES AND LATE CHARGES
- I - TO ADJUST DEPRECIATION TO AGC RATES RECOMMENDED IN DECISION NO. 61056

RECAP SCHEDULES:

(a) C-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COMPUTATION OF GROSS REVENUE CONVERSION FACTOR
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SCHEDULE C-3

NOT APPLICABLE - GCU IS A NON-PROFIT CORPORATION

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
SUMMARY COST OF CAPITAL
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE D-1

	END OF ACTUAL TEST YEAR		9/30/2008	
	AMOUNT	%	COST RATE	COMPOSITE
INVESTED CAPITAL	(b)			
LONG-TERM DEBT (a)	2,096,164	96.91%	4.89%	4.73%
DUE TO G.C.E. (a)	66,942	3.09%	4.75%	0.15%
TOTAL	2,163,106	100.00%		4.88%

	END OF PROJECTED YEAR		9/30/2008	
	AMOUNT	%	COST RATE	COMPOSITE
INVESTED CAPITAL	(b)			
LONG-TERM DEBT (a)	2,024,141	98.06%	4.83%	4.73%
DUE TO G.C.E. (a)	40,000	1.94%	5.25%	0.10%
TOTAL	2,064,141	100.00%		4.84%

SUPPORTING SCHEDULES:

(a) D-2

RECAP SCHEDULES:

(b) A-3

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
 COST OF LONG-TERM AND SHORT-TERM DEBT
 TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE D-2

	END OF TEST YEAR 10/1/07 to 9/30/08		END OF PROJECTED YEAR	
	WEIGHTED		WEIGHTED	
	OUTSTANDING (b)	INTEREST RATE (b)	OUTSTANDING INTEREST (a)	ANNUAL INTEREST (a)
<u>LONG-TERM:</u>				
CFC - FIXED RATE	349,396	7.68%	26,830	300,909
CFC - VARIABLE RATE	120,774	6.00%	7,252	140,740
AEPCO	47,667		25,667	
FMHA - LOAN # 1	144,052	5.000%	7,289	140,740
FMHA - LOAN # 2	252,272	4.500%	11,468	247,323
FMHA - LOAN # 3	87,530	4.500%	3,969	86,259
FMHA - LOAN # 4	1,094,474	4.125%	45,607	1,082,504
TOTAL LTD	2,096,164	5.00%	102,415	2,024,141
97,726				
<u>CURRENT PORTION OF LONG-TERM DEBT</u>	<u>90,500</u>			
	<u>2,005,664</u>			
TOTAL LTD	2,096,164		102,415	2,024,141
97,726				
<u>COST RATE</u>		<u>4.89%</u>		<u>4.83%</u>
<u>DUE TO G.C.E.</u>	<u>66,942</u>	<u>4.75%</u>	<u>1,844</u>	<u>40,000</u>
5.25%				5.25%
2,100				
<u>COST RATE</u>		<u>4.75%</u>		<u>5.25%</u>

SUPPORTING SCHEDULES:
 (b) E-1

RECAP SCHEDULES:
 (a) D-1

SCHEDULE D-3

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COST OF PREFERRED STOCK
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

NOT APPLICABLE

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COST OF COMMON EQUITY
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE D-4

NOT APPLICABLE

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COMPARATIVE BALANCE SHEET
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE E-1

	TEST YEAR ENDED 9/30/08	PRIOR YEARS ENDED 9/30/07	ENDED 9/30/06
ASSETS:			
UTILITY PLANT IN SERVICE	2,827,069	2,737,823	2,606,359
CONSTRUCTION WORK IN PROGRESS	1,185,518	761,925	258,657
TOTAL UTILITY PLANT (a)	4,012,587	3,499,748	2,865,016
ACCUMULATED DEPRECIATION	1,778,312	1,661,207	1,555,226
NET UTILITY PLANT	2,234,275	1,838,541	1,309,790
INVESTMENTS IN ASSOCIATED ORGANIZATIONS	107,506	113,864	118,824
CURRENT ASSETS:			
CASH	44,517	41,241	19,557
ACCOUNTS RECEIVABLE (NET)	14,545	22,030	15,345
ACCOUNTS RECEIVABLE - GAS DEPARTMENT	-	42,349	2,194
ACCOUNTS RECEIVABLE GCEC (c)	-	160,862	28,050
MATERIALS AND SUPPLIES (c)	51,158	54,926	68,020
OTHER CURRENT AND ACCRUED ASSETS (c)	11,914	15,981	14,387
TOTAL CURRENT ASSETS	122,133	337,389	147,553
OTHER ASSETS - DEFERRED DEBITS	16,863	20,293	23,722
TOTAL ASSETS	2,480,778	2,310,087	1,599,889
LIABILITIES AND EQUITY:			
MEMBERSHIPS	2,500	2,500	2,500
PATRONAGE CAPITAL	229,758	254,834	211,267
TOTAL EQUITY (b)	232,258	257,334	213,767
LONG-TERM DEBT			
CFC NOTES PAYABLE	422,570	471,401	656,020
NOTE PAYABLE - AEPCO	25,667	45,834	67,834
NOTE PAYABLE - USDA RURAL DEVELOPMENT	1,557,427	1,372,878	492,941
LONG-TERM DEBT (b)	2,005,664	1,890,113	1,216,795
CURRENT LIABILITIES:			
CURRENT MATURITIES OF LONG-TERM DEBT	90,500	94,400	88,000
ACCOUNTS PAYABLE - OTHER	54,940	37,062	49,780
ACCOUNTS PAYABLE - G.C.E.C.	66,942	-	-
ACCRUED TAXES	19,684	19,567	18,828
CUSTOMERS' DEPOSITS AND PREPAYMENTS (c)	8,540	9,190	9,900
ACCRUED INTEREST	2,250	2,421	2,663
ACCRUED PAYROLL	-	-	156
TOTAL CURRENT LIABILITIES	242,856	162,640	169,327
TOTAL LIABILITIES	2,248,520	2,052,753	1,386,122
TOTAL EQUITY AND LIABILITIES	2,480,778	2,310,087	1,599,889
	(0)	-	-

SUPPORT SCHEDULES:

(a) E-5

RECAP SCHEDULES:

(b) A-3

(c) B-5

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COMPARATIVE INCOME STATEMENT
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SCHEDULE E-2

	TEST YEAR 9/30/2008	PRIOR YEARS 9/30/2007 ENDED 9/30/06	
<u>REVENUES:</u>			
SALES OF WATER	602,983	582,584	563,988
OTHER WATER REVENUE	3,970	2,710	2,130
	606,953	585,294	566,118 (b)
<u>EXPENSES:</u>			
COST OF WATER PRODUCTION	32,595	40,810	27,050
DISTRIBUTION EXP. - OPER.	37,693	50,335	41,278
DISTRIBUTION EXP. - MAINT.	149,947	110,267	123,036
CONSUMER ACCOUNTS EXP.	55,169	47,620	42,881
ADMIN. & GENERAL	98,846	86,852	78,230
DEPRECIATION & AMORT.	117,105	105,982	106,303
TAXES - PROPERTY	20,216	19,306	19,720 (a)
TAXES - OTHER	13,521	12,141	9,087 (a)
INTEREST EXPENSE - OTHER	5,820	11,679	4,062
	530,912	484,992	451,646 (b)
OPERATING MARGINS	76,041	100,302	114,472 (b)
INTEREST EXPENSE - LTD	108,791	67,694	76,445 (b)
	(32,750)	32,608	38,027
<u>NON-OPERATING MARGINS:</u>			
INTEREST INCOME	3,700	4,607	8,204
CAPITAL CREDITS	3,974	6,352	7,960
	7,674	10,959	16,164 (b)
NET MARGINS	(25,076)	43,567	54,191 (b)

SUPPORT SCHEDULES:

(a) E-8

RECAP SCHEDULES:

(b) A-2 & C-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COMPARATIVE STATEMENT OF CASH FLOWS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SCHEDULE E-3

	<u>PRIOR YEAR</u> <u>9/30/2006</u>	<u>PRIOR YEAR</u> <u>9/30/2007</u>	<u>TEST YEAR</u> <u>9/30/2008</u>
CASH FLOWS			
<u>FROM OPERATING ACTIVITIES:</u>			
NET MARGINS (DEFICITS)	54,191	43,567	(25,076)
DEPRECIATION AND AMORTIZATION	106,303	105,982	117,105
CAPITAL CREDITS - NONCASH	(7,960)	(1,906)	(1,192)
DEFERRED CHARGES	3,430	3,429	3,430
ACCOUNTS RECEIVABLE	6,923	(6,685)	7,485
INVENTORIES AND OTHER CURRENT ASSETS	(30,342)	11,500	7,835
PAYABLES AND ACCRUED EXPENSES	28,046	(13,089)	17,174
ADVANCES - GAS DEPARTMENT	118,440	(132,812)	160,862
ADVANCES - GCEC	(2,229)	(40,155)	109,291
TOTAL FROM OPERATIONS	276,802	(30,169)	396,914
<u>FROM INVESTING ACTIVITIES</u>			
ADDITIONS TO PLANT/PURCHASE OF PROPERTY	(204,251)	(634,732)	(512,839)
PATRONAGE CAPITAL RETIREMENT - CFC	12,469	6,866	7,550
TOTAL FROM INVESTING	(191,782)	(627,866)	(505,289)
<u>FROM FINANCING:</u>			
PAYMENTS ON NOTE PAYABLE - AEPCO	(22,000)	(22,000)	(20,166)
PAYMENTS ON LONG-TERM DEBT - CFC	(54,299)	(183,319)	(59,831)
ADVANCES FROM USDA RURAL DEVELOPMENT	-	893,722	206,278
PAYMENTS ON OTHER LONG-TERM DEBT	(8,288)	(8,684)	(14,630)
PAYMENT OF CAPITAL CREDITS	-	-	-
TOTAL FROM FINANCING	(84,587)	679,719	111,651
INCREASE (DECREASE) IN CASH	433	21,684	3,276
CASH - BEGINNING OF YEAR	19,124	19,557	41,241
CASH - END OF YEAR	19,557	41,241	44,517
RECAP SCHEDULES:			

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM

STATEMENT OF CHANGE IN MEMBERS' EQUITY

SCHEDULE E-4

TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

**TOTAL MARGINS
AND EQUITIES**

BALANCE SEPTEMBER 30, 2000	52,728
NET EARNINGS (LOSS)	42,354
PATRONAGE CAPITAL RETIRED	(46,670)
BALANCE SEPTEMBER 30, 2001	48,412
NET EARNINGS (LOSS)	6,100
BALANCE SEPTEMBER 30, 2002	54,512
NET EARNINGS (LOSS)	50,332
BALANCE SEPTEMBER 30, 2003	104,844
NET EARNINGS (LOSS)	5,327
BALANCE SEPTEMBER 30, 2004	110,171
NET EARNINGS (LOSS)	46,905
BALANCE SEPTEMBER 30, 2005	157,076
NET EARNINGS (LOSS)	54,191 (b)
BALANCE SEPTEMBER 30, 2006	211,267 (a)
NET EARNINGS (LOSS)	43,567 (b)
BALANCE SEPTEMBER 30, 2007	254,834 (a)
NET EARNINGS (LOSS)	(25,076) (b)
BALANCE SEPTEMBER 30, 2008	229,758 (a)

SUPPORT SCHEDULES:

(a) E-1

(b) E-2

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
DETAIL OF UTILITY PLANT
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE E-6

[illegible]

RECAP SCHEDULES:
A-4 B-2 E-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COMPARATIVE DEPARTMENTAL OPERATING INCOME STATEMENT
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

**SCHEDULE E-6
PAGE 1 OF 1**

NOT APPLICABLE

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
OPERATING STATISTICS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SCHEDULE E-7

<u>ELECTRIC STATISTICS (a)</u>	<u>TEST YEAR ENDED 9/30/08</u>	<u>PRIOR YEAR ENDED 9/30/07</u>	<u>PRIOR YEAR ENDED 9/30/06</u>
<u>GALLONS SOLD</u>			
RESIDENTIAL	118,257,900	110,693,600	109,930,400
COMMERCIAL	12,459,800	13,428,800	12,202,800
SALES FOR RESALE	21,662,300	23,970,000	19,229,400
TOTALS	152,380,000	148,092,400	141,362,600
<u>AVERAGE NUMBER OF CUSTOMERS</u>			
RESIDENTIAL	1,099	1,070	1,038
COMMERCIAL	69	67	66
SALES FOR RESALE	2	2	2
TOTALS	1,170	1,139	1,107
<u>AVERAGE GALLONS USE</u>			
RESIDENTIAL	107,605	103,420	105,872
COMMERCIAL - SMALL	180,577	200,430	183,962
SALES FOR RESALE	10,831,150	11,985,000	9,614,700
TOTALS	11,119,332	12,288,850	9,904,534
<u>DOLLARS</u>			
RESIDENTIAL	520,702	495,134	487,139
COMMERCIAL - SMALL	48,371	50,055	46,612
SALES FOR RESALE	33,910	37,395	30,236
TOTALS	602,983	582,584	563,986
OTHER WATER REVENUE	3,970	2,710	2,130
TOTAL REVENUE	606,953	585,294	566,116
 AVERAGE ANNUAL REVENUE PER RESIDENTIAL CUSTOMER	 474	 463	 469

SUPPORTING SCHEDULES:

(a) RUS FORM 7 FOR RESPECTIVE YEARS

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
TAXES CHARGED TO OPERATIONS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE E-8

	TEST YEAR	PRIOR YEAR	PRIOR YEAR	
	<u>9/30/2008</u>	<u>9/30/2007</u>	<u>9/30/2006</u>	
PAYROLL & OTHER	13,521	12,141	9,087	(a)
PROPERTY	20,216	19,306	19,720	(a)
TOTAL TAXES	<u>33,737</u>	<u>31,447</u>	<u>28,806</u>	

RECAP SCHEDULES:

(a) E-2

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM

SCHEDULE E-9

TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

NOTES TO FINANCIAL STATEMENTS

SEE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
PROJECTED INCOME STATEMENTS
PRESENT AND PROPOSED RATES
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE F-1

	TEST YEAR ENDED 9/30/08 (a)	PROJECTED YEAR ENDED 9/30/08 PRESENT (b)	PROJECTED YEAR ENDED 9/30/08 PROPOSED (b)
REVENUES:			
SALES OF WATER	602,983	602,983	747,315
OTHER WATER REVENUE	3,970	5,290	5,290
	606,953	608,273	752,605
EXPENSES:			
PUMPING WATER	32,595	32,595	32,595
DISTRIBUTION EXP. - OPER.	37,693	57,801	57,801
DISTRIBUTION EXP. - MAINT	149,947	152,586	152,586
CONSUMER ACCOUNTS EXP	55,169	56,628	56,628
ADMIN. & GENERAL	98,846	119,073	119,073
DEPRECIATION & AMORT.	117,105	92,140	92,140
TAXES - PROPERTY	20,216	20,216	20,216
TAXES - OTHER	13,521	13,521	13,521
INTEREST EXPENSE - OTHER	5,820	3,265	3,265
	530,912	547,826	547,826
OPERATING MARGINS	76,041	60,447	204,779
INTEREST EXPENSE - LTD	108,791	117,034	117,034
NON-OPERATING MARGINS:			
INTEREST INCOME	3,700	6,985	6,985
CAPITAL CREDITS	3,974	3,974	3,974
	7,674	10,959	10,959
NET MARGINS	(25,076)	(45,628)	98,704

SUPPORTING SCHEDULES:

(a) E-2

RECAP SCHEDULES:

(b) A-2

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
PROJECTED STATEMENT OF CASH FLOWS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE F-2

	TEST YEAR	PRESENT	PROJECTED
	<u>9/30/2008</u>	<u>RATES</u>	<u>PROPOSED</u>
	<u>(a)</u>	<u>(b)</u>	<u>(b)</u>
CASH FLOWS			
<u>FROM OPERATING ACTIVITIES:</u>			
Net Margins (Deficits)	(25,076)	(45,628)	98,704
Depreciation and Amortization	117,105	117,105	117,105
Capital Credits - Noncash	(1,192)	(1,192)	(1,192)
Deferred Charges	3,430	3,430	3,430
Accounts Receivable	7,485	7,485	7,485
Inventories and Other Current Assets	7,835	7,835	7,835
Payables and Accrued Expenses	17,174	17,174	17,174
Advances - Gas Department	160,862	160,862	160,862
Advances - GCEC	109,291	176,794	18,083
FROM OPERATING ACTIVITIES:	396,914	443,865	429,486
FROM INVESTING ACTIVITIES			
Additions to Plant/Purchase of Property	(512,839)	(512,839)	(512,839)
Patronage Capital Retirement - CFC	7,550	7,550	7,550
FROM INVESTING ACTIVITIES	(505,289)	(505,289)	(505,289)
FROM FINANCING:			
Advances from AEPCO	-	-	-
Payments on Note Payable - AEPCO	(20,166)	(20,166)	(20,166)
Payments on Long-Term Debt - CFC	(59,831)	(59,831)	(59,831)
Advances from USDA Rural Development	206,278	206,278	206,278
Payments on Other Long-Term Debt	(14,630)	(14,630)	(14,630)
Payment of Capital Credits	-	-	-
FROM FINANCING ACTIVITIES:	111,651	111,651	111,651
INCREASE (DECREASE) IN CASH	3,276	50,227	35,848
CASH - BEGINNING OF YEAR	41,241	41,241	41,241
CASH - END OF YEAR	44,517	91,468	77,089

SUPPORT SCHEDULES:

(a) E-3

RECAP SCHEDULES:

(b) A-5

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
 PROJECTED CONSTRUCTION REQUIREMENTS
 TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE F-3

	ACTUAL TEST YEAR ENDED YEAR ENDED	PROJECTED YEAR ENDED		
	9/30/08	YEAR ENDED 9/30/09	YEAR ENDED 9/30/10	YEAR ENDED 9/30/11
PROPERTY CLASSIFICATION:				
PRODUCTION PLANT	1,602	4,000	4,000	4,000
DISTRIBUTION PLANT	47,681	18,000	18,000	18,000
GENERAL PLANT	39,963	3,000	3,000	3,000
CWIP - PIMA WATER PROJECT		1,185,518		
TOTAL PLANT (a)	89,246	1,210,518	25,000	25,000

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

(a) A-4

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
ASSUMPTIONS USED IN DEVELOPING PROJECTIONS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SCHEDULE F-4

AT PRESENT AND PROPOSED RATES - SCHEDULE F-1

	PER GENERAL LEDGER	PER DECISION NO. 61056
STAFFING LEVELS	4	
WAGE INCREASES THROUGH	7/1/2011	
NRECA RETIREMENT COST RATE - % OF GROSS PAYROLL	18.96%	
DEPRECIATION RATES TRANSMISSION PLANT	4.00%	3.61%
DEPRECIATION RATES DISTRIBUTION PLANT	4.00%	3.61%
CONSTRUCTION EXPENDITURES - SCHEDULE F-3		

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
 COST OF SERVICE SUMMARY - PRESENT RATES
 TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE G-1

	<u>REVENUES</u>	OTHER REVENUE	TOTAL REVENUE	<u>EXPENSES</u>	OPERATING <u>MARGINS</u>	RATE <u>BASE</u>	RATE OF <u>RETURN - %</u>
RESIDENTIAL	520,702	3,428	524,130	482,265	41,865	2,001,217	2.09%
COMMERCIAL	48,371	318	48,690	38,255	10,435	186,842	5.58%
RESALE	33,910	223	34,133	27,306	6,827	210,079	3.25%
TOTALS	602,983	3,970	606,953	547,826	59,127	2,398,138	2.47%
	(a)			(b)		(c)	

SUPPORTING SCHEDULES:

- (a) H-1
- (b) G-4
- (c) G-3

SCHEDULE G-2

	<u>REVENUES</u>	<u>OTHER REVENUE</u>	<u>TOTAL REVENUE</u>	<u>EXPENSES</u>	<u>OPERATING MARGINS</u>	<u>RATE BASE</u>	<u>RATE OF RETURN - %</u>
RESIDENTIAL	642,220	4,546	646,766	482,265	164,501	2,001,217	8.22%
COMMERCIAL	62,056	439	62,495	38,255	24,240	186,842	12.97%
RESALE	43,039	305	43,344	27,306	16,038	210,079	7.63%
TOTALS	747,315	5,290	752,605	547,826	204,779	2,398,138	8.54%

SUPPORTING: (a) _____ (b) _____ (c) _____

(a) H-1

(b) G-4

(c) G-3

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
RATE BASE ALLOCATION TO CLASS OF SERVICE
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE G-3

CLASS OF SERVICE TOTAL	PRODUCTION		CUSTOMER DISTRIBUTION		CWIP		GENERAL	
	\$	%	\$	%	\$	%	\$	%
RESIDENTIAL	(a) 2,001,217	(a) 83.45%	(b) 144,083	(c) 77.61%	(b) 890,246	(c) 92.10%	(b) 46,840	(c) 77.61%
COMMERCIAL	186,842	7.79%	15,181	8.18%	69,789	7.22%	4,935	8.18%
RESALE	210,079	8.76%	26,393	14.22%	6,573	0.68%	8,580	14.22%
TOTAL	2,398,138	100.00%	185,657	100.00%	966,608	100.00%	60,356	100.00%

SUPPORTING SCHEDULES:

- (b) G-5
(c) G-7

RECAP SCHEDULES:

- (a) G-1 & G-2

SCHEDULE G-4

CLASS OF SERVICE	TOTAL		CUSTOMER DISTRIBUTION		COST OF PUMPING W/FIXED COSTS		ALL OTHER	
	\$	%	\$	%	\$	%	\$	%
	(a)	(a)	(b)	(c)	(b)	(c)	(b)	(c)
RESIDENTIAL	482,265	88.03%	143,281	93.90%	25,296	77.61%	93,760	83.45%
COMMERCIAL	38,255	6.98%	9,045	5.93%	2,665	8.18%	8,754	7.79%
RESALE	27,306	4.98%	260	0.17%	4,634	14.22%	9,842	8.76%
TOTAL	547,826	100.00%	152,586	100.00%	32,595	100.00%	112,356	100.00%
							250,289	100.00%

RECAP SCHEDULES:

(a) G^{-1} & G^{-2}

SCHEDULE G-5

	TOTAL		WORKING CAPITAL			
	\$	%	CWIP	PRODUCTION DISTRIBUTION	INTANGIBLES	GENERAL
PRODUCTION DISTRIBUTION	1,399,106	58.34%	1,185,518	179,279	27,931	6,377
GENERAL PLANT	938,050	39.12%		880,746	25,973	31,331
	60,983	2.54%			627	60,356
TOTAL PLANT (a)	2,398,138	100.00%	1,185,518	179,279	880,746	54,531
					37,708	60,356

RECAP SCHEDULES:

(a) G-3

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
DISTRIBUTION OF EXPENSES BY FUNCTION
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE G-6

CLASS OF SERVICE	TOTAL		CUSTOMER DISTRIBUTION		PRODUCTION		FIXED COSTS		CUSTOMER	
	\$	%	\$	%	\$	%	\$	%	\$	%
<u>EXPENSES</u>	(a)	(a)	(b)	(c)	(b)	(c)	(b)	(c)	(b)	(c)
COST OF WATER PRODUCTION	32,595				32,595	100.0%				
DISTRIBUTION EXPENSE - O&M	210,388		152,586	72.5%					57,801	27.5%
CONSUMER ACCOUNTS EXPENSE	56,628								56,628	100.0%
ADMINISTRATIVE & GENERAL	119,073								119,073	100.0%
DEPRECIATION & AMORTIZATION	92,140						92,140	100.0%		
TAX EXPENSE	33,737						20,216	59.9%	13,521	40.1%
INTEREST EXPENSE - OTHER	3,265								3,265	100.0%
EXPENSES - MEMBERS (a)	547,826	100.0%	152,586	27.9%	32,595	5.9%	112,356	20.5%	250,289	45.7%

RECAP SCHEDULES:

(a) G-4

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
DEVELOPMENT OF ALLOCATION FACTORS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE G-7
PAGE 1 OF 2

A. BASED ON NUMBER OF CUSTOMERS:

<u>CLASS OF SERVICE</u>	<u>NUMBER OF CUSTOMERS</u>	<u>ALLOCATION FACTOR %</u>
RESIDENTIAL	1,102	93.90%
COMMERCIAL	70	5.93%
RESALE	2	0.17%
TOTALS	1,174	100.00%

B. BASED ON TOTAL GALLONS USAGE:

<u>CLASS OF SERVICE</u>	<u>TOTAL GALLONS</u>	<u>ALLOCATION FACTOR %</u>
RESIDENTIAL	118,257,900	77.61%
COMMERCIAL	12,459,800	8.18%
RESALE	21,662,300	14.22%
TOTALS	152,380,000	100.00%

C. BASED ON COMBINED AVERAGE:

<u>CLASS OF SERVICE</u>	<u>GALLONS FACTOR %</u>	<u># OF CUST FACTOR %</u>	<u>PLANT FACTOR %</u>	<u>COMBINED AVERAGE</u>
RESIDENTIAL	77.61%	93.90%	92.10%	87.87%
COMMERCIAL	8.18%	5.93%	7.22%	7.11%
RESALE	14.22%	0.17%	0.68%	5.02%
TOTALS	100.00%	100.00%	100.00%	100.00%

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
DEVELOPMENT OF ALLOCATION FACTORS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE G-7
PAGE 2 OF 2

D. BASED ON RELATIVE COST OF SERVICES & METERS INSTALLED:

TOTAL PLANT IN SERVICE		4,012,586
LESS: ACQUISITION ADJUSTMENT	610,168	
ACCUMULATED AMORTIZATION ON ACQIUTION ADJ	(463,727)	146,441
LESS: ACCUMULATED DEPRECIATION	1,778,313	
ADD: ACCUMULATED DEPRECIATION ADJUSTMENT	(255,775)	1,522,539
NET PLANT		<u>2,343,607</u>

BALANCE OF NET PLANT

RELATIVE CURRENT COST OF SERVICE INSTALLATION & METER:

<u>CLASS OF SERVICE</u>	<u>AVG. # OF CONSUMERS</u>	<u>COST OF INSTALLATION</u>	<u>TOTAL COST \$1,000</u>	<u>FACTOR %</u>
RESIDENTIAL	1,102	370	408	92.10%
COMMERCIAL	70	465	32	7.22%
RESALE	2	1,650	3	0.68%
TOTAL	1,174		443	100.00%

RESULTANT ALLOCATION FACTORS:

<u>CLASS OF SERVICE</u>	<u>NET PLANT DISTRIBUTION</u>	<u>ALLOCATION FACTOR %</u>
RESIDENTIAL	2,158,446	92.10%
COMMERCIAL	169,290	7.22%
RESALE	15,871	0.68%
TOTAL	<u>2,343,607</u>	<u>100.00%</u>

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM

SUMMARY OF REVENUES BY CUSTOMER CLASS

SCHEDULE H-1

PRESENT AND PROPOSED RATES

TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

PROPOSED

	REVENUES IN TEST YEAR		INCREASE	
	PRESENT	PROPOSED	AMOUNT	%
	(a)	(a)	(b)	(b)
RESIDENTIAL	520,702	642,220	121,518	23.34%
COMMERCIAL	48,371	62,056	13,684	28.29%
RESALE	33,910	43,039	9,129	26.92%
TOTAL	602,983	747,315	144,332	23.94%

SUPPORTING SCHEDULES:

(a) H-2

RECAP SCHEDULE:

(b) A-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
ANALYSIS OF REVENUE BY DETAILED CLASS

SCHEDULE H-2

TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

CLASS OF SERVICE	ANNUAL AVERAGES CUSTOMERS	GALLONS	REVENUES		INCREASE	
			PRESENT (a)	PROPOSED (a)	AMOUNT (a)	PERCENT (a)
<u>RESIDENTIAL:</u>						
SCHEDULE A	1,102	107,288	520,702	642,220	121,518	23.34%
<u>COMMERCIAL:</u>						
SCHEDULE B	70	179,063	48,371	62,056	13,684	28.29%
<u>RESALE</u>						
SCHEDULE	2	21,662,300	33,910	43,039	9,129	26.92%
<u>TOTAL</u>	<u>1,174</u>	<u>21,948,651</u>	<u>602,983</u>	<u>747,315</u>	<u>144,332</u>	<u>23.94%</u>

RECAP SCHEDULES:

(a) H-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
CHANGES IN REPRESENTATIVE RATE SCHEDULES
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SCHEDULE H-3

RATE SCHEDULE	BLOCK	RATES PRESENT (a)	RATES PROPOSED (b)	\$ CHANGE	% CHANGE
<u>RESIDENTIAL</u>					
A	ALL GALLONS	2.55	2.97	0.42	16.47%
	SERVICE AVAILABILITY	16.80	22.00	5.20	30.95%
<u>COMMERCIAL</u>					
B & C	ALL GALLONS	2.55	2.97	0.42	16.47%
	SERVICE AVAILABILITY	23.00	30.00	7.00	30.43%
<u>RESALE</u>					
CG	ALL GALLONS	1.51	1.95	0.44	29.38%
	SERVICE AVAILABILITY	50.00	60.00	10.00	20.00%
<u>SERVICE CHARGES</u>					
Establishment of Service - Regular Hours		15.00	20.00	5.00	33.33%
Establishment of Service - After Hours		22.50	50.00	27.50	122.22%
Reconnection of Service - Regular Hours		20.00	20.00	-	0.00%
Reconnection of Service - After Hours		0.00	50.00	50.00	N/A
After Hours Service Calls - Consumer Caused		70.00	70.00	-	0.00%
Meter Reread Charge (If Correct)		10.00	10.00	-	0.00%
Meter Test Fee (If Correct)		20.00	20.00	-	0.00%
Insufficient Funds Check Charge		20.00	25.00	5.00	25.00%
Interest Rate on Customer Deposits		6 %	6 %		
Late Payment (Per Month & Per Total Bill)		1.5 %	1.5% with \$5 minimum		
Reestablishment (Within 12 Months)		**	**		

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D)

SUPPORTING SCHEDULES:

(a) TARIFF SCHEDULES EFFECTIVE 9/1/98 - DECISION NO. 61056

(b) H-3-1 PROPOSED TARIFF SCHEDULES

GRAHAM COUNTY UTILITIES, INC.**PROPOSED RATE SCHEDULE****WATER DIVISION**

Effective Date:

Service Line and Meter Installation Charges:

5/8" X 3/4" Meter	*
3/4" Meter	*
1" Meter	*
1 1/4" Meter	*
1 1/2" Meter	*
2" Meter	*
3" Meter	*
4" Meter	*

*All Service Line and Meter Installation Charges will be based on actual cost and will be non-refundable Contributions in Aid of Construction

Monthly Rates:

Service Availability Charge:
Per Month, Per Customer.

5/8" X 3/4" Meter	\$	22.00
3/4" Meter	\$	24.00
1" Meter	\$	26.00
1 1/2" Meter	\$	30.00
2" Meter	\$	60.00

Plus Usage Charge:

Per each 1,000 gallons regardless of meter size or class of customer.	\$	2.97
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Service Charges:

Establishment of Service - Regular Hours	\$	20.00
Establishment of Service - After Hours	\$	50.00
Reconnection of Service - Regular Hours	\$	20.00
Reconnection of Service - After Hours	\$	50.00
After Hours Service Calls - Consumer Caused	\$	70.00
Meter Reread Charge (If Correct)	\$	10.00
Meter Test Fee (If Correct)	\$	20.00
Insufficient Funds Check Charge	\$	25.00
Interest Rate on Customer Deposits		6 %
Late Payment (Per Month & Per Total Bill)		1.5% with \$5 minimum
Reestablishment (Within 12 Months)		**

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D)

Security Deposits:

Per A.C.R.R. R14-2-403B

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
TYPICAL BILL ANALYSIS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE H-4
Page 1 of 2

<u>RESIDENTIAL</u>	<u>MONTHLY 1000 GALLONS</u>	<u>PRESENT</u>	<u>MONTHLY BILL PROPOSED</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
	0	16.80	22.00	5.20	30.95%
	1000	19.35	24.97	5.62	29.04%
	2000	21.90	27.94	6.04	27.58%
	3000	24.45	30.91	6.46	26.42%
	4000	27.00	33.88	6.88	25.48%
	5000	29.55	36.85	7.30	24.70%
	6000	32.10	39.82	7.72	24.05%
	7000	34.65	42.79	8.14	23.49%
	8000	37.20	45.76	8.56	23.01%
	9000	39.75	48.73	8.98	22.59%
	10000	42.30	51.70	9.40	22.22%
	11000	44.85	54.67	9.82	21.90%
	12000	47.40	57.64	10.24	21.60%
	13000	49.95	60.61	10.66	21.34%
	14000	52.50	63.58	11.08	21.10%
	15000	55.05	66.55	11.50	20.89%
	20000	67.80	81.40	13.60	20.06%
	25000	80.55	96.25	15.70	19.49%
	30000	93.30	111.10	17.80	19.08%
	35000	106.05	125.95	19.90	18.76%
	40000	118.80	140.80	22.00	18.52%
	45000	131.55	155.65	24.10	18.32%
	50000	144.30	170.50	26.20	18.16%
Average Usage	8,941				

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
TYPICAL BILL ANALYSIS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE H-4

Page 2 of 2

<u>COMMERCIAL</u>	<u>MONTHLY 1000 GALLONS</u>	<u>MONTHLY BILL</u>		<u>\$ INCREASE</u>	<u>% INCREASE</u>
		<u>PRESENT</u>	<u>PROPOSED</u>		
	0	23.00	30.00	7.00	30.43%
	1,000	25.55	32.97	7.42	29.04%
	2,000	28.10	35.94	7.84	27.90%
	3,000	30.65	38.91	8.26	26.95%
	4,000	33.20	41.88	8.68	26.14%
	5,000	35.75	44.85	9.10	25.45%
	6,000	38.30	47.82	9.52	24.86%
	7,000	40.85	50.79	9.94	24.33%
	8,000	43.40	53.76	10.36	23.87%
	9,000	45.95	56.73	10.78	23.46%
	10,000	48.50	59.70	11.20	23.09%
	11,000	51.05	62.67	11.62	22.76%
	12,000	53.60	65.64	12.04	22.46%
	13,000	56.15	68.61	12.46	22.19%
	14,000	58.70	71.58	12.88	21.94%
	15,000	61.25	74.55	13.30	21.71%
	20,000	74.00	89.40	15.40	20.81%
	25,000	86.75	104.25	17.50	20.17%
	30,000	99.50	119.10	19.60	19.70%
	35,000	112.25	133.95	21.70	19.33%
	40,000	125.00	148.80	23.80	19.04%
	45,000	137.75	163.65	25.90	18.80%
	50,000	150.50	178.50	28.00	18.60%
	75,000	214.25	252.75	38.50	17.97%
	100,000	278.00	327.00	49.00	17.63%
RESALE	919,250	1,438.07	1,855.85	417.78	29.05%

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
 BILL COUNT
 TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE H-5
 Page 1 of 3

RESIDENTIAL

BLOCK			CUMULATIVE BILLS		CUMULATIVE GALLONS USAGE	
	NUMBER OF BILLS	GALLONS BY BLOCK	NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
MIN	1,264	390,600	1,264	9.56%	390,600	0.33%
1,000	827	1,299,300	2,091	15.81%	1,689,900	1.43%
2,000	1,000	2,588,700	3,091	23.37%	4,278,600	3.62%
3,000	1,179	4,185,800	4,270	32.28%	8,464,400	7.16%
4,000	1,144	5,194,500	5,414	40.93%	13,658,900	11.55%
5,000	1,101	6,087,800	6,515	49.26%	19,746,700	16.70%
6,000	968	6,328,000	7,483	56.57%	26,074,700	22.05%
7,000	813	6,137,400	8,296	62.72%	32,212,100	27.24%
8,000	709	6,060,400	9,005	68.08%	38,272,500	32.36%
9,000	575	5,472,500	9,580	72.43%	43,745,000	36.99%
10,000	500	5,266,700	10,080	76.21%	49,011,700	41.44%
11,000	403	4,645,500	10,483	79.25%	53,657,200	45.37%
12,000	331	4,139,500	10,814	81.76%	57,796,700	48.87%
13,000	293	3,973,300	11,107	83.97%	61,770,000	52.23%
14,000	231	3,353,500	11,338	85.72%	65,123,500	55.07%
15,000	752	12,999,600	12,090	91.40%	78,123,100	66.06%
20,000	396	8,845,900	12,486	94.40%	86,969,000	73.54%
25,000	255	6,932,900	12,741	96.33%	93,901,900	79.40%
30,000	131	4,201,200	12,872	97.32%	98,103,100	82.96%
35,000	91	3,402,000	12,963	98.00%	101,505,100	85.83%
40,000	63	2,666,600	13,026	98.48%	104,171,700	88.09%
45,000	48	2,288,800	13,074	98.84%	106,460,500	90.02%
50,000	153	11,797,400	13,227	100.00%	118,257,900	100.00%
	13,227	118,257,900				

AVERAGE NUMBER OF CUSTOMERS	1,102
AVERAGE GALLONS CONSUMPTION PER YEAR	107,288
MEDIAN ANNUAL CONSUMPTION (GALLONS)	67,250

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
 BILL COUNT
 TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008
 COMMERCIAL

SCHEDULE H-5
 Page 2 of 3

BLOCK	NUMBER OF BILLS	GALLONS BY BLOCK	CUMULATIVE BILLS		CUMULATIVE GALLONS USAGE	
			NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
MIN	270	69,700	270	32.34%	69,700	0.56%
1,000	57	87,500	327	39.16%	157,200	1.26%
2,000	36	91,700	363	43.47%	248,900	2.00%
3,000	31	110,500	394	47.19%	359,400	2.88%
4,000	33	148,800	427	51.14%	508,200	4.08%
5,000	36	200,900	463	55.45%	709,100	5.69%
6,000	30	197,500	493	59.04%	906,600	7.28%
7,000	22	166,800	515	61.68%	1,073,400	8.61%
8,000	21	179,200	536	64.19%	1,252,600	10.05%
9,000	17	161,000	553	66.23%	1,413,600	11.35%
10,000	14	147,800	567	67.90%	1,561,400	12.53%
11,000	12	138,700	579	69.34%	1,700,100	13.64%
12,000	12	151,300	591	70.78%	1,851,400	14.86%
13,000	14	188,900	605	72.46%	2,040,300	16.38%
14,000	9	131,400	614	73.53%	2,171,700	17.43%
15,000	41	725,900	655	78.44%	2,897,600	23.26%
20,000	35	781,300	690	82.63%	3,678,900	29.53%
25,000	29	798,800	719	86.11%	4,477,700	35.94%
30,000	15	481,500	734	87.90%	4,959,200	39.80%
35,000	14	531,000	748	89.58%	5,490,200	44.06%
40,000	11	462,200	759	90.90%	5,952,400	47.77%
45,000	12	577,800	771	92.34%	6,530,200	52.41%
OVER 50000	64	5,929,600	835	100.00%	12,459,800	100.00%
	835	12,459,800				

AVERAGE NUMBER OF CUSTOMERS	70	
AVERAGE GALLONS CONSUMPTION PER YEAR	179,063	14,921.92
MEDIAN ANNUAL CONSUMPTION GALLONS)	74,400	

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM

BILL COUNT

SCHEDULE H-5

TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

Page 3 of 3

RESALE

BLOCK	CUMULATIVE 1000 GALLONS		CUMULATIVE 1000 GALLONS USAGE	
	NUMBER <u>OF BILLS</u>	1000 GALLONS <u>BY BLOCK</u>	NUMBER <u>NUMBER</u>	<u>% OF TOTAL</u>
RESALE	24	21,662	24	100%

AVERAGE NUMBER OF CUSTOMERS 2

AVERAGE GALLONS CONSUMPTION PER YEAR 10,831,150

MEDIAN ANNUAL CONSUMPTION (GALLONS) 10,831,150

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

WATER DIVISION

RULES AND REGULATIONS

In Accordance With
Arizona Corporation Commission

Definitions

In this Article, unless the context otherwise requires, the following definitions shall apply:

1. "Advance in aid of construction." Funds provided to the utility by the applicant under the terms of a main extension agreement the value of which may be refundable.
2. "Applicant." A person requesting the utility to supply water service.
3. "Application." A request to the utility for water service, as distinguished from an inquiry as to the availability or charges for such service.
4. "Arizona Corporation Commission." The regulatory authority of the state of Arizona having jurisdiction over public service corporations operating in Arizona.
5. "Billing month." The period between any two regular readings of the utility's meters at approximately 30 day intervals.
6. "Billing period." The time interval between two consecutive meter readings that are taken for billing purposes.
7. "Commodity charge." The unit of cost per billed usage, as set forth in the utility's tariffs.
8. "Contributions in aid of construction." Funds provided to the utility by the applicant under the terms of a main extension agreement and/or service connection tariff the value of which are not refundable.
9. "Customer." The person or entity in whose name service is rendered, as evidenced by the signature on the application or contract for that service, or by the receipt and/or payment of bills regularly issued in his name regardless of the identity of the actual user of the service.
10. "Customer charge." The amount the customers must pay the utility for the availability of water service, excluding any water used, as specified in the utility's tariffs.
11. "Day." Calendar day.
12. "Distribution main." A water main of the utility from which service connections may be extended to customers.
13. "Interruptible water service." Water service that is subject to interruption or curtailment.
14. "Main extension." The mains and ancillary equipment necessary to extend the existing water distribution system to provide service to additional customers.
15. "Master meter." A meter for measuring or recording the flow of water at a single location where said water is transported through an underground piping system to tenants or occupants for their individual consumption.
16. "Meter." The instrument for measuring and indicating or recording the volume of water that has passed through it.
17. "Meter tampering." A situation where a meter has been illegally altered. Common examples are meter bypassing, use of magnets to slow the meter recording, and broken meter seals.
18. "Minimum charge." The amount the customer must pay for the availability of water service, including an amount of usage, as specified in the utility's tariffs.
19. "Minimum delivery pressure." 20 pounds per square inch gauge at the meter or point of delivery.
20. "Permanent customer." A customer who is a tenant or owner of a service location who applies for and receives water service.
21. "Permanent service." Service which, in the opinion of the utility, is of a permanent and established character. The use of water may be continuous, intermittent, or seasonal in nature.
22. "Person." Any individual, partnership, corporation, governmental agency, or other organization operating as a single entity.
23. "Point of delivery." The point where facilities owned, leased, or under license by a customer connect to the utility's pipes or at the outlet side of the meter.
24. "Premises." All of the real property and apparatus employed in a single enterprise on an integral parcel of land undivided by public streets, alleys or railways.
25. "Residential subdivision development." Any tract of land which has been divided into four or more contiguous lots for use for the construction of residential buildings or permanent mobile homes for either single or multiple occupancy.
26. "Residential use." Service to customers using water for domestic purposes such as personal consumption, water heating, cooking, and other residential uses and includes use in apartment buildings, mobile home parks, and other multiunit residential buildings.
27. "Rules." The regulations set forth in the tariffs which apply to the provision of water service.
28. "Service area." The territory in which the utility has been granted a Certificate of Convenience and Necessity and is authorized by the Commission to provide water service.
29. "Service establishment charge." The charge as specified in the utility's tariffs which covers the cost of establishing a new account.
30. "Service line." A water line that transports water from a common source (normally a distribution main) of supply to the customer's point of delivery.

31. "Service reconnect charge." The charge as specified in the utility's tariffs which must be paid by the customer prior to reestablishment of water service each time the water is disconnected for nonpayment or whenever service is discontinued for failure otherwise to comply with the utility's fixed rules.
32. "Service reestablishment charge." A charge as specified in the utility's tariffs for service at the same location where the same customer had ordered a service disconnection within the preceding 12-month period.
33. "Single family dwelling." A house, an apartment, a mobile home permanently affixed to a lot, or any other permanent residential unit which is used as a permanent home.
34. "Tariffs." The documents filed with the Commission which list the services and products offered by the water company and which set forth the terms and conditions and a schedule of the rates and charges for those services and products.
35. "Temporary service." Service to premises or enterprises which are temporary in character, or where it is known in advance that the service will be of limited duration. Service which, in the opinion of the utility, is for operations of a speculative character is also considered temporary service.
36. "Utility." The public service corporation providing water service to the public in compliance with state law. Also referred to as Graham County Utilities, Inc. or GCU.

PART I. Certificate of Convenience and Necessity for water utilities; abandonments

- A. On October 15, 1989, the Arizona Corporation Commission approved the transfer of the Certificate of Convenience and Necessity to operate as a water distribution utility in Graham County previously held by City Utilities Company to Graham County Utilities, Inc., effective November 1, 1989.
- B. Application for discontinuance or abandonment of utility service
 1. Any utility proposing to discontinue or abandon utility service currently in use by the public shall prior to such action obtain authority therefor from the Commission.
 2. The utility shall include in the application, studies of past, present and prospective customer use of the subject service, plant or facility as is necessary to support the application.
 3. An application shall not be required to remove individual facilities where a customer has requested service discontinuance.
- C. Additions/extensions to outside existing Certificates of Convenience and Necessity
 1. Each utility which proposes to extend utility service to a location not within its certificated service area, but located in a non-certificated area contiguous to its certificated service area, shall prior to the extension of service, notify the Commission of such service extension. Such notifications shall be in writing and shall be verified and shall set forth, at a minimum, the number of persons or entities proposed to be served by such service extension, their location in relation to the certificated area of the utility and a statement of the utility that the service extension is to a non-certificated area which is contiguous to its certificated area. Where emergency service is required to be provided to a customer in a non-certificated area contiguous to the utility certificated area the utility shall advise the Commission simultaneously of such extension and the written notification shall set forth the nature and extent of the emergency.
 2. For purpose of this rule the following definition of "contiguous" is: Contiguous -- Common, ordinary and approved meaning. In actual close contact; touching; bounded or traversed by.
- D. Membership
 4. A membership application card shall be signed acknowledging the customer's agreement to pay the required membership fee plus any applicable taxes and to observe such lawful rules, regulations, policies, rates and schedules of the non-profit corporation as are now in force or may hereafter be in force and as are filed and approved by the Commission.
 5. In addition to the provisions of these Rules, each member shall be bound by the Articles of Incorporation and By-Laws of the corporation as the same may be amended from time to time.
 6. The membership fee and any service connection charge shall be non-transferable.
 7. No customer may hold more than one membership and a personal membership shall be held jointly by both husband and wife unless specified to the contrary in writing by both spouses or unless the corporation is given satisfactory evidence that the property of a spouse which is to receive service is the sole and separate property of such spouse.

PART II. Establishment of service

- A. Information from new applicants
 1. A utility may obtain the following minimum information from each new applicant for service:
 - a. Name or names of applicant(s).
 - b. Service address or location and telephone number

- c. Billing address/telephone number, if different than service address.
 - d. Address where service was provided previously.
 - e. Date applicant will be ready for service.
 - f. Indication of whether premises have been supplied with utility service previously.
 - g. Purpose for which service is to be used.
 - h. Indication of whether applicant is owner or tenant of or agent for the premises.
 - i. Information concerning the usage and demand requirements of the customers.
 - j. Type and kind of life-support equipment, if any, used by the customer.
2. Each utility may require a new applicant for service to appear at the utility's designated place of business to produce proof of identity and sign the utility's application form.
 3. Where service is requested by two or more individuals the utility shall have the right to collect the full amount owed to the utility from any one of the applicants.
- B. Deposits**
1. A utility may require a deposit from any new applicant for service.
 2. ~~The utility shall issue a nonnegotiable receipt to the applicant for the deposit. The inability of the customer to produce such a receipt shall in no way impair his right to receive a refund of the deposit which is reflected on the utility's records.~~
 3. Interest on deposits shall be calculated annually at an interest rate filed by the utility and approved by the Commission in a tariff proceeding. In the absence of such, the interest rate shall be 6%.
 4. Interest shall be credited to the customer's bill annually.
 5. Residential deposits shall be refunded within 30 days after:
 - a. 12 consecutive months of service without being delinquent in the payment of utility bills provided the utility may reestablish the deposit if the customer becomes delinquent in the payment of bills two or more times within a 12-consecutive-month period.
 - b. Upon discontinuance of service when the customer has paid all outstanding amounts due the utility.
 6. A separate deposit may be required for each meter installed.
 7. The amount of a deposit required by the utility shall be determined according to the following terms:
 - a. Residential customer deposits shall not exceed two times the average residential class bill as evidenced by the utility's most recent annual report filed with the Commission.
 - b. Nonresidential customer deposits shall not exceed 2 1/2 times that customer's estimated maximum monthly bill.
 - c. The utility may review the customer's usage after service has been connected and adjust the deposit amount based upon the customer's actual usage.
 8. Upon discontinuance of service, the deposit may be applied by the utility toward settlement of the customer's bill.
- C. Grounds for refusal of service.** A utility may refuse to establish service if any of the following conditions exist:
1. The applicant has an outstanding amount due for the same class of utility service with the utility and the applicant is unwilling to make arrangements with the utility for payment.
 2. A condition exists which in the utility's judgment is unsafe or hazardous to the applicant, the general population, or the utility's personnel or facilities.
 3. Refusal by the applicant to provide the utility with a deposit.
 4. Customer is known to be in violation of the utility's tariffs filed with the Commission or of the Commission's rules and regulations.
 5. Failure of the customer to furnish such funds, service, equipment, and/or rights-of-way necessary to serve the customer and which have been specified by the utility as a condition for providing service.
 6. Applicant falsifies his or her identity for the purpose of obtaining service.
- D. Service establishments, re-establishments or reconnection charge**
1. A utility may make a charge as approved by the Commission for the establishment, reestablishment, or reconnection of utility services.
 2. Should service be established during a period other than regular working hours at the customer's request, the customer may be required to pay an after-hour charge for the service connection. Where the utility scheduling will not permit service establishment on the same day requested, the customer can elect to pay the after-hour charge for establishment that day.
 3. For the purpose of this rule, service establishments are where the customer's facilities are ready and acceptable to the utility and the utility needs only to install a meter, read a meter, or turn the service on.
- E. Temporary service**
1. Applicants for temporary service may be required to pay the utility, in advance of service establishment, the estimated cost of installing and removing the facilities necessary for furnishing the desired service.

2. Where the duration of service is to be less than one month, the applicant may also be required to advance a sum of money equal to the estimated bill for service.
3. Where the duration of service is to exceed one month, the applicant may also be required to meet the deposit requirements of the utility.
4. If at any time during the term of the agreement for service the character of a temporary customer's operations changes so that in the opinion of the utility the customer is classified as permanent, the terms of the utility's main extension rules shall apply.

F. Master Metering

1. Mobile Home Parks – New Construction/Expansion
 - a. Graham County Utilities, Inc. shall refuse service to all new construction and/or expansion of existing permanent residential mobile home parks unless the construction and/or expansion is individually metered. Main extensions and service line connections to serve such new construction or expansion shall be governed by the main extension and/or service line connection tariff.
 - b. Permanent residential mobile home parks for the purpose of this Rule shall mean mobile home parks ~~where, in the opinion of Graham County Utilities, Inc., the average length of stay for an occupant is a~~ minimum of six months.
 - c. For the purpose of this Rule, expansion means construction which has been started for additional permanent residential spaces after the effective date of this Rule.

PART III. Minimum customer information requirements

A. Information for residential customers

1. Each utility shall make available upon customer request not later than 60 days from the date of request a concise summary of the rate schedule applied for by such customer. The summary shall include the following:
 - a. Monthly minimum or customer charge, identifying the amount of the charge and the specific amount of usage included in the minimum charge, where applicable.
 - b. Rate blocks, where applicable.
 - c. Any adjustment factor(s) and method of calculation.
2. The utility shall to the extent practical identify the tariff most advantageous to the customer and notify the customer of such prior to service commencement.
3. In addition, a utility shall make available upon customer request not later than 60 days from the date of request a copy of the Commission's rules and regulations governing:
 - a. Deposits
 - b. Terminations of service
 - c. Billing and collection
 - d. Complaint handling.
4. Each utility upon written request of a customer shall transmit a concise statement of actual consumption by such customer for each billing period during the prior 12 months unless such data is not reasonably ascertainable.
5. Each utility shall inform all new customers of their rights to obtain the information specified above.

B. Information required due to changes in tariffs

1. Each utility shall transmit to affected customers by the most economic means available a concise summary of any change in the utility's tariffs affecting those customers.
2. This information shall be transmitted to the affected customer within 60 days of the effective date of the change.

PART IV. Service connections and establishments

A. Priority and timing of service establishments

1. After an applicant has complied with the utility's application and deposit requirements and has been accepted for service by the utility, the utility shall schedule that customer for service connection and/or establishment.
2. Service establishments shall be scheduled for completion within five working days of the date the customer has been accepted for service, except in those instances when the customer requests service establishment beyond the five working day limitation.
3. When the utility has made arrangements to meet with a customer for service establishment purposes and the utility or the customer cannot make the appointment during the prearranged time, the utility shall reschedule the service establishment to the satisfaction of both parties.
4. Each utility shall schedule service establishment appointments within a maximum range of four hours during normal working hours, unless another time-frame is mutually acceptable to the utility and the customer.

5. Service establishments shall be made only by qualified utility service personnel.
6. For the purposes of this rule, service establishments are where the customer's facilities are ready and acceptable to the utility and the utility needs only to install or read a meter or turn the service on.

B. Service lines

(Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension the Company will extend its distribution facilities as provided hereafter in this section.)

1. An applicant for service shall be responsible for the cost of installing all customer piping up to the meter.
2. An applicant shall be responsible for all labor, material, and overhead costs of the new service as a non-refundable contribution in aid of construction.
3. Where service is being provided for the first time, the customer shall provide and maintain a private cutoff valve within 18 inches of the meter on the customer's side of the meter, and the utility shall provide a like valve on the utility's side of such meter.
4. The Company may install its meter at the property line or, at the Company's option, on the customer's property in a location mutually agreed upon.
5. Where the meter or service line location on the customer's premises is changed at the request of the customer or due to alterations on the customer's premises, the customer shall provide and have installed at his expense all piping necessary for relocating the meter and the utility may make a charge for moving the meter and/or service line.
6. The customer's lines or piping must be installed in such a manner as to prevent cross-connection or backflow.
7. Each utility shall file a tariff for service and meter installations for Commission review and approval.

C. Easements and rights-of-way

1. Each customer shall grant adequate easement and right-of-way satisfactory to the utility to ensure that customer's proper service connection. Failure on the part of the customer to grant adequate easement and right-of-way shall be grounds for the utility to refuse service.
2. When a utility discovers that a customer or his agent is performing work or has constructed facilities adjacent to or within an easement or right-of-way and such work, construction or facility poses a hazard or is in violation of federal, state or local laws, ordinances, statutes, rules or regulations, or significantly interferes with the utility's access to equipment, the utility shall notify the customer or his agent and shall take whatever actions are necessary to eliminate the hazard, obstruction or violation at the customer's expense.

PART V. Main extension agreements

A. General requirements

(Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension the Company will extend its distribution facilities as provided hereafter in this section.)

1. Each utility shall file for Commission approval a main extension tariff which incorporates the provisions of this rule and specifically defines the conditions governing main extensions.
2. Upon request by an applicant for a main extension, the utility shall prepare, without charge, a preliminary sketch and rough estimates of the cost of installation to be paid by said applicant.
3. Any applicant for a main extension requesting the utility to prepare detailed plans, specifications, or cost estimates may be required to deposit with the utility an amount equal to the estimated cost of preparation. The utility shall upon request, make available within 90 days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the applicant authorizes the utility to proceed with construction of the extension, the deposit shall be credited to the cost of construction; otherwise the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the utility's expense, appropriate details shall be set forth in the plans, specifications and cost estimate. Subdividers providing the utility with approved plats shall be provided with plans, specifications or cost estimates within 45 days after receipt of the deposit referred to above.
4. All main extension agreements requiring payment by the applicant shall be in writing and signed by each party.
5. The provisions of this rule apply only to those applicants who in the utility's judgment will be permanent customers of the utility. Applications for temporary service shall be governed by the Commission's rules concerning temporary service applications.

B. Minimum written agreement requirements

1. Each main extension agreement shall, at a minimum, include the following information:

- a. Name and address of applicant(s)
 - b. Proposed service address or location
 - c. Description of requested service
 - d. Description and sketch of the requested main extension
 - e. A cost estimate to include materials, labor, and other costs as necessary
 - f. Payment terms
 - g. A concise explanation of any refunding provisions, if applicable. The refunding provisions shall be as follows:
 - I. Where the number of potential services has been determined by final plats.
 1. Each subsequent hookup on the line extension after the first customer shall pay a percentage equal to the total cost estimate divided by the number of lots. This amount shall then be refunded to the first customer provided it has not been five years since the time of payment as outlined in rule C-5.
 - II. Where the number of potential services is not readily available and must be estimated by the Cooperative.
 1. ~~Each subsequent hookup on the line extension after the first customer shall pay a percentage of the original cost as determined by the distance from the main to the service location. This amount shall then be refunded equally between the prior customers provided it has not been five years since the time of payment as outlined in rule C-5.~~
 - h. The utility's estimated start date and completion date for construction of the main extension
 - i. A summary of the results of the economic feasibility analysis performed by the utility to determine the amount of advance required from the applicant for the proposed main extension.
2. Each applicant shall be provided with a copy of the written main extension agreement.
- C. Main and Service line extension requirements. Each main line extension shall include the following provisions:
1. GCU does not provide a free footage allowance. The applicant shall be responsible for all material, labor, and overhead costs of the main line extension.
 2. Line extension measurement shall be along the route of construction required.
 3. The timing and methodology by which the utility will refund any aid to construction as additional customers are served off the main extension. The customer may request an annual survey to determine if additional customers have been connected to and are using service from the extension. In no case shall the amount of the refund exceed the amount originally paid.
 4. All aid to construction shall be non-interest bearing.
 5. All refunding provisions are null and void after five years from the date of payment of the contribution in aid of construction.
- D. Extensions For Residential Subdivision Developments and Mobile Home Parks
1. Extensions to the Perimeter of Duly Recorded Real Estate Subdivisions and Mobile Home Parks.
 - a. Water main extensions will generally be made when mutually agreed upon by the Company and the applicant in areas where the Company does maintain existing facilities for its operating convenience.
 - b. The Applicant shall provide at his expense the trenching, backfilling (including any imported backfill required), compaction, repaving and earth-work in preparation for installation of facilities. At its option, the Company may elect, at the applicants expense, to perform the necessary activities to fulfill the applicants responsibility hereunder provided the expense to the applicant is equal or less than that which would otherwise be borne.
 2. Extensions Within Duly Recorded Real Estate Subdivisions and Mobile Home Parks
 - a. Distribution facilities will be constructed by the Company within a duly recorded subdivision or mobile home park in advance of application for service by permanent customers after the Company and the Developer of said subdivision or mobile home park have entered into a written contract which provides for net construction costs to be paid as contributions in aid of construction. Net construction costs shall be all costs furnished by the Company to install such facilities and meters and regulators required including all material, labor, and overhead costs.
 - b. Rights-of-way and easements suitable to the Company must be furnished by the developer at no cost to the Company and in reasonable time to meet service requirements. No facilities shall be installed until the final grades have been established and furnished to the Company. In addition, the easement strips, alleys and streets must be graded to within six (6) inches of final grade by the developer before the Company will commence construction and must be maintained by the developer during construction.
 3. There is no free Main and Service Line Extension Footage for Residential Subdivision Developments and Mobile Home Parks.
 4. Residential Subdivision Developments and Mobile Home Parks shall be excluded from any refunding provisions.

- E. Residential subdivision development and permanent mobile home parks. Each utility shall submit as a part of its main extension tariff separate provisions for residential subdivision developments and permanent mobile home parks.
- F. Ownership of facilities. Any facilities installed hereunder shall be the sole property of the utility.
- G. All agreements entered into under this rule shall be evidenced by a written statement, and signed by the Company and the parties paying the funds as contributions in aid of construction under this rule or the duly authorized agents of each.
- H. The size, design, type and quality of materials of the system, installed under this rule location in the ground and the manner of installation, shall be specified by the Company, and shall be in accord with the requirements of the Commission or other public agencies having authority therein. The Company may install main extensions of any diameter meeting the requirements of the Commission or any other public agencies having authority over the construction and operation of the water system and mains, except individual main extensions, shall comply with and conform to the following minimum specifications:
 - 1. 150 p.s.i. working pressure rating and
 - 2. 6" standard diameter.However, single residential customer contributions in aid of construction shall not exceed the reasonable cost of construction of the 6-inch diameter main extension.
- I. All pipelines, valves, fittings, wells, tanks or other facilities installed under this rule shall be the sole property of the Company, and parties making contributions in aid of construction under this rule shall have no right, title or interest in any such facilities.
- J. The Company shall schedule all new requests for main extension agreements, and for service under main extension agreements, promptly and in the order received.
- K. An applicant for service seeking to enter into a main extension agreement may request that the utility include on a list of contractors from whom bids will be solicited, the name(s) of any bonded contractor(s), provided that all bids shall be submitted by the bid date stipulated by the utility. If a lower bid is thus obtained or if a bid is obtained at an equal price and with a more appropriate time of performance, and if such bid contemplates conformity with the Company's requirements and specifications, the Company shall be required to meet the terms and conditions of the bid proffered, or to enter into a construction contract with the contractor proffering such bid. Performance bond in the total amount of the contract may be required by the utility from the contractor prior to construction.
- L. Any discounts obtained by the utility from contracts terminated under this rule shall be accounted for by credits to the appropriate account dominated as Contributions in Aid of Construction.

PART VI. Provision of service

- A. Utility responsibility. Each utility shall be responsible for providing potable water to the customer's point of delivery.
- B. Customer responsibility
 - 1. Each customer shall be responsible for maintaining all facilities on the customer's side of the point of delivery in a safe and efficient manner and in accordance with the rules of the state Department of Health.
 - 2. Each customer shall be responsible for safeguarding all utility property installed in or on the customer's premises for the purpose of supplying water to that customer.
 - 3. Each customer shall exercise all reasonable care to prevent loss or damage to utility property, excluding ordinary wear and tear. The customer shall be responsible for loss of or damage to utility property on the customer's premises arising from neglect, carelessness, or misuse and shall reimburse the utility for the cost of necessary repairs or replacements.
 - 4. Each customer shall be responsible for payment for any equipment damage resulting from unauthorized breaking of seals, interfering, tampering or bypassing the utility meter.
 - 5. Each customer shall be responsible for notifying the utility of any failure identified in the utility's equipment.
 - 6. Water furnished by the utility shall be used only on the customer's premises and shall not be resold to any other person. During critical water conditions, as determined by the Commission, the customer shall use water only for those purposes specified by the Commission. Disregard for this rule shall be sufficient cause for refusal or discontinuance of service.

- C. Continuity of service. Each utility shall make reasonable efforts to supply a satisfactory and continuous level of service. However, no utility shall be responsible for any damage or claim of damage attributable to any interruption or discontinuation of service resulting from:
1. Any cause against which the utility could not have reasonably foreseen or made provision for, i.e., force majeure
 2. Intentional service interruptions to make repairs or perform routine maintenance
 3. Curtailment.
- D. Service interruptions
1. Each utility shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.
 2. Each utility shall make reasonable provisions to meet emergencies resulting from failure of service, and each utility shall issue instructions to its employees covering procedures to be followed in the event of emergency in order to prevent or mitigate interruption or impairment of service.
 3. In the event of a national emergency or local disaster resulting in disruption of normal service, the utility may, in the public interest, interrupt service to other customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.
 4. When a utility plans to interrupt service for more than four hours to perform necessary repairs or maintenance, the utility shall attempt to inform affected customers at least 24 hours in advance of the scheduled date and estimated duration of the service interruption. Such repairs shall be completed in the shortest possible time to minimize the inconvenience to the customers of the utility.
 5. The Commission shall be notified of interruptions in service affecting the entire system or any major division thereof. The interruption of service and cause shall be reported within four hours after the responsible representative of the utility becomes aware of said interruption by telephone to the Commission and followed by a written report to the Commission.
- E. Minimum delivery pressure. Each utility shall maintain a minimum standard delivery pressure of 20 pounds per square inch gauge (PSIG) at the customer's meter or point of delivery.
- F. Construction standards. Each utility shall construct all facilities in accordance with the guidelines established by the state Department of Health Services.
- G. Curtailment. In the event that the availability of service is so restricted due to severe supply shortages or service curtailments and a reduction of service on a proportionate basis to all customer classes will not maintain the integrity of the total system; priority will first be given to those customers and/or customer classes where health, safety and welfare would be adversely affected.

PART VII. Meter reading

- A. Frequency. Each meter shall be read monthly on as close to the same day as practical.
- B. Measuring of service
1. All water delivered by the utility shall be billed upon the basis of metered volume sales except that the utility may, at its option, provide a fixed charge schedule for the following:
 - a. Temporary service where the water use can be readily estimated
 - b. Public and private fire protection service
 - c. Water used for street sprinkling and sewer flushing, when provided for by contract between the utility and the municipality or other local governmental authority
 - d. Other fixed charge schedules as shall be submitted to and approved by the Commission.
 2. When there is more than one meter at a location, the metering equipment shall be so tagged or plainly marked as to indicate the facilities being metered.
- C. Customer requested rereads
1. Each utility shall at the request of a customer reread the customer's meter within 10 working days after such request by the customer.
 2. Any rereads shall be charged to the customer at a rate on file and approved by the Commission, provided that the original reading was not in error.
 3. When a reading is found to be in error, the reread shall be at no charge to the customer.

- D. Access to customer premises. Each utility shall have the right of safe ingress to and egress from the customer's premises at all reasonable hours for any purpose reasonably connected with the utility's property used in furnishing service and the exercise of any and all rights secured to it by law or these rules.
- E. Meter testing and maintenance program. Each utility shall establish a regular program of meter testing taking into account the following factors:
1. Size of meter
 2. Age of meter
 3. Consumption
 4. Characteristics of water.
 - a. Graham County Utilities, Inc. will do routine testing, maintenance and replacement of meters and will file and annual report with the Commission summarizing the results for that year showing:
 - ii. Total number of meters, by size, tested, at company initiative or upon customer request.
 - iii. Number of meters tested which were outside the acceptable error allowance + or - 3%.
- ~~F. Customer requested meter tests. A utility shall test a meter upon customer request and each utility shall be authorized to charge the customer for such meter test according to the tariff on file and approved by the Commission. However, if the meter is found to be in error by more than 3%, no meter testing fee will be charged to the customer.~~

PART VIII. Billing and collection

- A. Frequency and estimated bills
1. Each utility shall bill monthly for services rendered. Meter readings shall be scheduled for periods of not less than 25 days or more than 35 days.
 2. If the utility is unable to read the meter on the scheduled meter read date, the utility will estimate the consumption for the billing period giving consideration to the following factors where applicable:
 - a. The customer's usage during the same month of the previous year
 - b. The amount of usage during the preceding month.
 3. After the second consecutive month of estimating the customer's bill for reasons other than severe weather, the utility will attempt to secure an accurate reading of the meter.
 4. Failure on the part of the customer to comply with a reasonable request by the utility for access to its meter may lead to the discontinuance of service.
 5. Estimated bills will be issued only under the following conditions:
 - a. Failure of a customer who read his own meter to deliver his meter reading card to the utility in accordance with the requirements of the utility billing cycle.
 - b. Severe weather conditions which prevent the utility from reading the meter.
 - c. Circumstances that make it dangerous or impossible to read the meter, i.e., locked gates, blocked meters, vicious or dangerous animals, etc.
 6. Each bill based on estimated usage will indicate that it is an estimated bill.
- B. Combining meters, minimum bill information
1. Each meter at a customer's premises will be considered separately for billing purposes, and the readings of two or more meters will not be combined.
 2. Each bill for residential service will contain the following minimum information:
 - a. Date and meter reading at the start of billing period or number of days in the billing period.
 - b. Previous month's meter reading
 - c. Billed usage
 - d. Utility telephone number
 - e. Customer's name
 - f. Service account number (if available)
 - g. Amount due and due date
 - h. Past due amount (where appropriate)
 - i. Adjustment factor, where applicable
 - j. Other approved tariff charges.
- C. Billing terms
1. All bills for utility services are due and payable when rendered. Any payment not received within 15 days from the date the bill was rendered shall be considered past due.
 2. For purposes of this rule, the date a bill is rendered may be evidenced by:
 - a. The postmark date
 - b. The mailing date:

- i. Certified mail
 - ii. Certificate of mailing.
 - c. The billing date shown on the bill (however, the billing date will not differ from the postmark or mailing date by more than two (2) days.)
 - 3. All past due bills for utility service are due and payable within ten (10) days. Any payment not received within this time frame will be considered delinquent.
 - 4. All delinquent bills for which payment has not been received within five (5) days shall be subject to the provisions of the utility's termination procedures as set forth in R14-2-410.
 - 5. All payments shall be made at or mailed to the office of the utility or to the utility's duly authorized representative.
- D. Applicable tariffs, prepayment, failure to receive, commencement date, taxes**
- 1. Each customer shall be billed under the applicable tariff indicated in the customer's application for service.
 - 2. Each utility shall make provisions for advance payment for utility services.
 - 3. Failure to receive bills or notices which have been properly placed in the United States mail shall not prevent such bills from becoming delinquent nor relieve the customer of his obligations therein.
 - 4. Charges for service commence when the service is installed and connection made, whether used or not.
 - 5. In addition to the collection of regular rates, each utility may collect from its customers a proportionate share of any privilege, sales or use tax.
- E. Meter error corrections**
- 1. If any meter after testing is found to be more than 3% in error, either fast or slow, proper correction between 3% and the amount of the error shall be made of previous readings and adjusted bills shall be rendered according to the following terms:
 - a. For the period of three months immediately preceding the removal of such meter from service for test or from the time the meter was in service since last tested, but not exceeding three months since the meter shall have been shown to be in error by such test, or
 - b. From the date the error occurred, if the date of the cause can be definitely fixed.
 - 2. No adjustment shall be made by the utility except to the customer last served by the meter tested.
- F. Insufficient funds (NSF) checks**
- 1. A utility shall be allowed to recover a fee, as approved by the Commission for each instance where a customer tenders payment for utility service with an insufficient funds check.
 - 2. When the utility is notified by the customer's bank that there are insufficient funds to cover the check tendered for utility service, the utility may require the customer to make payment in cash, by money order, certified check, or other means which guarantee the customer's payment to the utility.
 - 3. A customer who tenders an insufficient check shall in no way be relieved of the obligation to render payment to the utility under the original terms of the bill nor defer the utility's provision for termination of service for nonpayment of bills.
- G. Deferred payment plan**
- 1. Each utility may, prior to termination, offer to qualifying residential customers a deferred payment plan for the customer to retire unpaid bills for utility service.
 - 2. Each deferred payment agreement entered into by the utility and the customer due to the customer's inability to pay an outstanding bill in full shall provide that service will not be discontinued if:
 - a. Customer agrees to pay a reasonable amount of the outstanding bill at the time the parties enter into the deferred payment agreement.
 - b. Customer agrees to pay all future bills for utility service in accordance with the billing and collection tariffs of the utility.
 - c. Customer agrees to pay a reasonable portion of the remaining outstanding balance in installments over a period not to exceed six months.
 - 3. For the purposes of determining a reasonable installment payment schedule under these rules, the utility and the customer shall give consideration to the following conditions:
 - a. Size of the delinquent account
 - b. Customer's ability to pay
 - c. Customer's payment history
 - d. Length of time that the debt has been outstanding
 - e. Circumstances which resulted in the debt being outstanding
 - f. Any other relevant factors related to the circumstances of the customer.
 - 4. Any customer who desires to enter into a deferred payment agreement shall establish such agreement prior to the utility's scheduled termination date for nonpayment of bills; customer failure to execute a deferred

payment agreement prior to the scheduled termination date shall not prevent the utility from discontinuing service for nonpayment.

5. Deferred payment agreements may be in writing and may be signed by the customer and an authorized utility representative.
6. A deferred payment agreement may include a finance charge as approved by the Commission in a tariff proceeding.
7. If a customer has not fulfilled the terms of a deferred payment agreement, the utility shall have the right to disconnect service pursuant to the utility's termination of service rules and, under such circumstances, it shall not be required to offer subsequent negotiation of a deferred payment agreement prior to disconnection.

H. Change of occupancy

1. Not less than three working days advance notice must be given in person, in writing, or by telephone at the utility's office to discontinue service or to change occupancy.
2. The outgoing party shall be responsible for all utility services provided and/or consumed up to the scheduled turn-off date.

I. Levelized Billing Plan

1. Graham County Utilities, Inc. may, at its option, offer its residential customers a levelized billing plan.
2. Upon a customer's request, the Company will prepare an estimate of the levelized billing for a twelve-month period based upon:
 - a. Customer's actual consumption history, which may be adjusted for abnormal conditions such as weather variations.
 - b. Estimate and consumption based on the customer's anticipated load requirements.
 - c. Tariff schedules applicable.
3. Graham County Utilities, Inc. will provide the customer a concise explanation of how the levelized billing estimate was developed, the impact of levelized billing on a customer's monthly utility bill, and the Company's right to adjust the customer's billing for any variation between estimated billing and actual billing.
4. For those customers being billed under a levelized billing plan, Graham County Utilities, Inc. shall show, at a minimum, the following information on the customer's monthly bill:
 - a. Actual consumption.
 - b. Amount due for actual consumption.
 - c. Levelized billing amount due.
 - d. Accumulated variation in actual versus levelized billing amount.
5. Graham County Utilities, Inc. may adjust the customer's levelized billing in the event the estimate of the customer's usage and/or cost should vary significantly from the customer's actual usage and/or cost. Such review to adjust the amount of the levelized billing may be initiated by the Company or the customer.

PART IX. Termination of service

A. Nonpermissible reasons to disconnect service. A utility may not disconnect service for any of the reasons stated below:

1. Delinquency in payment for services rendered to a prior customer at the premises where service is being provided, except in the instance where the prior customer continues to reside on the premises.
2. Failure of the customer to pay for services or equipment which are not regulated by the Commission.
3. Nonpayment of a bill related to another class of service.
4. Failure to pay for a bill to correct a previous underbilling due to an inaccurate meter or meter failure if the customer agrees to pay over a reasonable period of time.

B. Termination of service without notice

1. Utility service may be disconnected without advance written notice under the following conditions:
 - a. The existence of an obvious hazard to the safety or health of the consumer or the general population.
 - b. The utility has evidence of meter tampering or fraud.
 - c. Unauthorized resale or use of utility services.
 - d. Failure of a customer to comply with the curtailment procedures imposed by a utility during supply shortages.
2. The utility shall not be required to restore service until the conditions which resulted in the termination have been corrected to the satisfaction of the utility.
3. Each utility shall maintain a record of all terminations of service without notice. This record shall be maintained for a minimum of one year and shall be available for inspection by the Commission.

C. Termination of service with notice

1. A utility may disconnect service to any customer for any reason stated below provided the utility has met the notice requirements established by the Commission:
 - a. Customer violation of any of the utility's tariffs filed with the Commission and/or violation of the Commission's rules and regulations.
 - b. Failure of the customer to pay a delinquent bill for utility service.
 - c. Failure to meet or maintain the utility's credit and deposit requirements.
 - d. Failure of the customer to provide the utility reasonable access to its equipment and property.
 - e. Customer breach of a written contract for service between the utility and customer.
 - f. When necessary for the utility to comply with an order of any governmental agency having such jurisdiction.
 2. Each utility shall maintain a record of all terminations of service with notice. This record shall be maintained for one year and be available for Commission inspection.
- D. Termination notice requirements**
1. No utility shall terminate service to any of its customers without providing advance written notice to the ~~customer of the utility's intent to disconnect service, except under those conditions specified where advance~~ written notice is not required.
 2. Such advance written notice shall contain, at a minimum, the following information:
 - a. The name of the person whose service is to be terminated and the address where service is being rendered.
 - b. The Commission rule or regulation that was violated and explanation thereof or the amount of the bill which the customer has failed to pay in accordance with the payment policy of the utility, if applicable.
 - c. The date on or after which service may be terminated.
 - d. A statement advising the customer to contact the utility at a specific address or phone number for information regarding any deferred payment or other procedures which the utility may offer or to work out some other mutually agreeable solution to avoid termination of the customer's service.
 - e. A statement advising the customer that the utility's stated reason for the termination of services may be disputed by contacting the utility at a specific address or phone number, advising the utility of the dispute and making arrangements to discuss the cause for termination with a responsible employee of the utility in advance of the scheduled date of termination. The responsible employee shall be empowered to resolve the dispute and the utility shall retain the option to terminate service.
- E. Timing of terminations with notice**
1. Each utility shall be required to give at least 5 days advance written notice prior to the termination date.
 2. Such notice shall be considered to be given to the customer when a copy thereof is left with the customer or posted first class in the United States mail, addressed to the customer's last known address.
 3. If after the period of time allowed by the notice has elapsed and the delinquent account has not been paid nor arrangements made with the utility for the payment thereof or in the case of a violation of the utility's rules the customer has not satisfied the utility that such violation has ceased, the utility may then terminate service on or after the day specified in the notice without giving further notice.
 4. Service may only be disconnected in conjunction with a personal visit to the premises by an authorized representative of the utility.
 5. The utility shall have the right (but not the obligation) to remove any or all of its property installed on the customer's premises upon the termination of service.
- F. Landlord/tenant rule.** In situations where service is rendered at an address different from the mailing address of the bill or where the utility knows that a landlord/tenant relationship exists and that the landlord is the customer of the utility, and where the landlord as a customer would otherwise be subject to disconnection of service, the utility may not disconnect service until the following actions have been taken:
1. Where it is feasible to so provide service, the utility, after providing notice as required in these rules, shall offer the occupant the opportunity to subscribe for service in his or her own name. If the occupant then declines to so subscribe, the utility may disconnect service pursuant to the rules.
 2. A utility shall not attempt to recover from a tenant or condition service to a tenant with the payment of any outstanding bills or other charges due upon the outstanding account of the landlord.

PART X. Administrative and Hearing Requirements

- A. Customer service complaints**
1. Each utility shall make a full and prompt investigation of all service complaints made by its customers, either directly or through the Commission.
 2. The utility shall respond to the complainant and/or the Commission representative within five working days as to the status of the utility investigation of the complaint.

3. The utility shall notify the complainant and/or the Commission representative of the final disposition of each complaint. Upon request of the complainant or the Commission representative, the utility shall report the findings of its investigation in writing.
4. The utility shall inform the customer of his right of appeal to the Commission.
5. Each utility shall keep a record of all written service complaints received which shall contain, at a minimum, the following data:
 - a. Name and address of the complainant
 - b. Date and nature of the complaint
 - c. Disposition of the complaint
 - d. A copy of any correspondence between the utility, the customer, and/or the Commission.This record shall be maintained for a minimum period of one year and shall be available for inspection by the Commission.

B. Customer Bill Disputes

1. Any water customer who disputes a portion of a bill rendered for water service will pay the undisputed portion of the bill and notify Graham County Utilities, Inc. designated representative that such unpaid amount is in dispute prior to the delinquent date of the bill.
2. Upon receipt of the customer notice of dispute, the Company will:
 - a. Notify the customer within five (5) working days of the receipt of a written dispute notice.
 - b. Initiate a prompt investigation as to the source of the dispute.
 - c. Withhold disconnection of service until the investigation is completed and the customer is informed of the results. Upon request of the customer Graham County Utilities, Inc. will report the results of the investigation in writing.
 - d. Inform the customer of his right of appeal to the Commission.
3. Once the customer has received the results of the investigation, the customer will submit payment within five (5) working days to the utility for any disputed amounts. Failure to make full payment will be grounds for termination of service.

C. Commission Resolution of Service and/or Bill Disputes

1. In the event a customer and Graham County Utilities, Inc. cannot resolve a service and/or bill dispute, the customer will file a written statement of dissatisfaction with the Commission.
2. Within thirty (30) days of the receipt of written statement of customer dissatisfaction related to a service or bill dispute, a designated representative of the Commission will endeavor to resolve the dispute by correspondence and/or telephone with Graham County Utilities, Inc. and the customer. If resolution of the dispute is not achieved within twenty (20) days of the Commission representative's initial effort, the Commission will hold an informal hearing to arbitrate the resolution of the dispute. The informal hearing will be governed by the following rules:
 - a. Each party may be represented by legal counsel, if desired.
 - b. All such informal hearings may be recorded or held in the presence of a stenographer.
 - c. All parties will have the opportunity to present written or oral evidentiary material to support the positions of the individual parties.
 - d. All parties and the commission's representative will be given the opportunity for cross-examination of the various parties.
 - e. The Commission's representative will render a written decision to all parties within five (5) working days after the date of the informal hearing. Such written decision of the arbitrator is not binding on any of the parties and the parties will still have the right to make a formal complaint to the Commission.
3. Graham County Utilities, Inc. may implement normal termination procedures if the customer fails to pay all bills rendered during the resolution of the dispute by the Commission.
4. A record is maintained of written statements of dissatisfaction and their resolution for a minimum of one (1) year and are available for Commission inspection.

D. Notice by utility of responsible officer or agent

1. Each utility shall file with the Commission a written statement containing the name, address (business, residence and post office) and telephone numbers (business and residence) of the onsite manager of its operations.
2. Each utility shall give notice, by filing a written statement with the Commission, of any change in the information required herein within five days from the date of any such change.

E. Time-frames for processing applications for Certificates of Convenience and Necessity

1. This rule prescribes time-frames for the processing of any application for a Certificate of Convenience and Necessity issued by the Arizona Corporation Commission pursuant to this Article. These time-frames shall apply to applications filed on or after the effective date of this rule.

2. Within 30 calendar days after receipt of an application for a new Certificate of Convenience and Necessity, or to amend or change the status of any existing Certificate of Convenience and Necessity, staff shall notify the applicant, in writing, that the application is either administratively complete or deficient. If the application is deficient, the notice shall specify all deficiencies.
 3. Staff may terminate an application if the applicant does not remedy all deficiencies within 60 calendar days of the notice of deficiency.
 4. After receipt of a corrected application, staff shall notify the applicant within 30 calendar days if the corrected application is either administratively complete or deficient. The time-frame for administrative completeness review shall be suspended from the time the notice of deficiency is issued until staff determines that the application is complete.
 5. Within 150 days after an application is deemed administratively complete, the Commission shall approve or reject the application.
 6. For purposes of A.R.S. § 41-1072 et seq., the Commission has established the following time-frames:
 - a. Administrative completeness review time-frame: 30 calendar days,
 - b. Substantive review time-frame: 150 calendar days,
 - c. Overall time-frame: 180 calendar days.
 7. If an applicant requests, and is granted, an extension or continuance, the appropriate time-frames shall be tolled from the date of the request during the duration of the extension or continuance.
 8. During the substantive review time-frame, the Commission may, upon its own motion or that of any interested party to the proceeding, request a suspension of the time-frame rules.
- F. Accounts and records
1. Each utility shall keep general and auxiliary accounting records reflecting the cost of its properties, operating income and expense, assets and liabilities, and all other accounting and statistical data necessary to give complete and authentic information as to its properties and operations.
 2. Each utility shall maintain its books and records in conformity with the NARUC Uniform Systems of Accounts for Class A, B, C and D Water Utilities.
 3. A utility shall produce or deliver in this state any or all of its formal accounting records and related documents requested by the Commission. It may, at its option, provide verified copies of original records and documents.
 4. All utilities shall submit an annual report to the Commission on a form prescribed by it. The annual report shall be filed on or before the 15th day of April for the preceding calendar year.
 5. All utilities shall file with the Commission a copy of all reports required by the Securities and Exchange Commission.
 6. All utilities shall file with the Commission a copy of all annual reports required by the Federal Energy Regulatory Commission.
- G. Maps. All utilities shall file with the Commission a map or maps clearly setting forth the location and extent of the area or areas they hold under approved certificates of convenience and necessity, in accordance with the Cadastral (Rectangular) Survey of the United States Bureau of Land Management, or by metes and bounds with a starting point determined by the aforesaid Cadastral Survey.

FINANCIAL AND STATISTICAL REPORT

Round ALL AMOUNTS to nearest dollar.

GRAHAM COUNTY UTILITIES, INC.

WATER SYSTEM

PIMA, AZ 85543

MONTH ENDING

December 31, 2008

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

Russ Barney
SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT
1-29-09
DATE
Steve M. Lue
SIGNATURE OF MANAGER
1-29-09
DATE
PART A. STATEMENT OF OPERATIONS
DECEMBER

ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	595,714	606,676	619,524	42,787
2. Water Production Expense	-	-	-	-
3. Cost of Water Production	40,387	24,545	45,273	-
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	70,983	57,784	75,931	5,002
6. Distribution Expense - Maintenance	117,026	159,814	132,866	15,399
7. Consumer Accounts Expense	51,309	59,152	58,962	4,856
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	86,664	111,864	96,695	14,157
11. Total Operation & Maintenance Expense (2 - 10)	366,370	413,159	409,727	39,413
12. Depreciation and Amortization Expense	108,298	117,516	117,332	9,853
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	93,297	100,752	110,161	12,034
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	4,042	6,966	8,205	773
18. Other Deductions	-	-	-	-
19. Total Cost of Water Service (11 - 18)	572,007	638,393	645,426	62,073
20. Patronage Capital & Operating Margins (1 - 19)	23,707	(31,717)	(25,901)	(19,285)
21. Non Operating Margins - Interest	6,577	1,450	3,956	12
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	6,352	3,974	6,352	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	36,636	(26,292)	(15,593)	(19,274)

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	29	23	6. Miles Distribution		
2. Service Retired			8. Total Miles (5+6+7)		
3. Total Services in Place	1,125	1,148			
4. Idle Services (Exclude Seasonal)					

Form 7

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Page 1 of 2 Pages

FINANCIAL AND STATISTICAL REPORT				GRAHAM COUNTY UTILITIES, INC.	
				WATER SYSTEM	
Round ALL AMOUNTS to nearest dollar.				MONTH ENDING	
				December 31, 2008	
PART C. BALANCE SHEET					
ASSETS AND OTHER DEBITS			LIABILITIES AND OTHER CREDITS		
1. Total Utility Plant in Service	2,835,775		26. Memberships	2,500	
2. Construction Work in Progress	1,199,438		27. Patronage Capital	245,534	
3. Total Utility Plant (1 + 2)	4,035,214		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	1,807,827		29. Operating Margins - Current Year	(31,717)	
5. Net Utility Plant (3 -4)	2,227,386		30. Non Operating Margins	5,424	
6. Nonutility Property _ Net	-		31. Other Margins and Equities	-	
7. Invest in Assoc Org - Patronage Capital	-		32. Total Margins & Equities (26 thru 31)	221,741	
8. Invest in Assoc Org - General Funds	107,506		33. Long-Term Debt RUS (Net)	-	
9. Invest in Assoc Org - Nongeneral Funds	-		(Payments - Unapplied \$		
10. Other Investments	-		34. Long-Term Debt - Other (net)	2,091,016	
11. Special Funds	-		(Payments - Unapplied \$		
12. Total Other Property & Investments (6 thru 11)	107,506		35 Total Long-Term Debt(33 + 34)	2,091,016	
13. Cash - General Funds	44,557		36. Notes Payable	-	
14. Cash - Construction Funds - Trustee	-		37. Accounts Payable	116,028	
15. Special Deposits	-		38. Consumers Deposits	8,435	
16. Temporary Investments	-		39. Other Current & Accrued Liabilities	28,023	
17. Notes Receivable - Net	-		40. Total Current & Accrued Liab (36 thru 39)	152,487	
18. Accounts Receivable - Sales of Water	5,938		41. Deferred Credits	-	
19. Accounts Receivable - Net Other	-		42. Miscellaneous Operating Reserves	-	
20. Materials & Supplies - Water & Other	58,290		43. Total Liabilities & Other Credits (32 +	-	
21. Prepayments	5,561		35 + 40 thru 42)	2,465,244	
22. Other Current & Accrued Assets	-		ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION		
23. Total Current & Accrued Assets (13 thru 22)	114,346		Balance Beginning of Year	502,326	
24. Deferred Debits	16,006		Amounts Received This Year (Net)	46,563	
25. Total Assets & Other Debits (5+12+23+24)	2,465,244		TOTAL Contributions in Aid of Construction	548,889	
PART D. CONSUMER SALES AND REVENUE DATA					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	1,123	7,036,100	36,617	118,144,500	522,688
2. COMM & INDUSTRIAL	71	679,300	3,143	12,017,400	47,463
3. SALES FOR RESALE	2	1,799,300	2,817	20,864,500	32,705
4. TOTAL WATER SALES	1,196	9,514,700	42,577	151,026,400	602,856
5. OTHER WATER REVENUE			210		3,820
6. TOTAL	1,196	9,514,700	42,787	151,026,400	606,676
PART E. WATER STATISTICS					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	11,253,500	162,606,100	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	1,738,800	11,579,700
3. TOTAL	11,253,500	162,606,100	8. % SYSTEM LOSS	15.45%	7.12%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	9,514,700	151,026,400	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.		GRAHAM COUNTY UTILITIES, INC. WATER SYSTEM PIMA, AZ 85543 MONTH ENDING December 31, 2007			
CERTIFICATION We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.					
<u>Russ Barney</u> SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT		<u>1-25-08</u> DATE			
<u>Steve M. Luce</u> SIGNATURE OF MANAGER		<u>1-25-08</u> DATE			
PART A. STATEMENT OF OPERATIONS			DECEMBER		
	YEAR-TO-DATE			THIS MONTH	
ITEM	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)	
1. Operating Revenue and Patronage Capital	566,658	595,714	593,572	48,514	
2. Water Production Expense	-	-	-	-	
3. Cost of Water Production	29,802	40,387	34,273	8,050	
4. Transmission Expense	-	-	-	-	
5. Distribution Expense - Operations	62,866	70,983	66,112	4,101	
6. Distribution Expense - Maintenance	130,226	117,026	133,887	11,917	
7. Consumer Accounts Expense	46,264	51,309	55,399	4,225	
8. Customer Service and Informational Expense	-	-	-	-	
9. Sales Expense	-	-	-	-	
10. Administrative and General Expense	82,991	86,664	89,818	5,455	
11. Total Operation & Maintenance Expense (2 - 10)	352,149	366,370	379,490	33,748	
12. Depreciation and Amortization Expense	106,569	108,298	125,145	9,724	
13. Tax Expense - Property	-	-	-	-	
14. Tax Expense - Other	-	-	-	-	
15. Interest on Long-Term Debt	75,884	93,297	88,448	25,337	
16. Interest Charged to Construction - Credit	-	-	-	-	
17. Interest Expense - Other	4,116	4,042	9,204	333	
18. Other Deductions	-	-	-	-	
19. Total Cost of Water Service (11 - 18)	538,718	572,007	602,286	69,142	
20. Patronage Capital & Operating Margins (1 - 19)	27,940	23,707	(8,714)	(20,628)	
21. Non Operating Margins - Interest	6,258	6,577	2,855	873	
22. Allowance for Funds Used During Construction	-	-	-	-	
23. Non Operating Margins - Other	-	-	-	-	
24. Generation & Transmission Capital Credits	-	-	-	-	
25. Other Capital Credits and Patronage Dividends	7,960	6,352	7,960	-	
26. Extraordinary Items	-	-	-	-	
27. Patronage Capital or Margins (20 - 26)	42,157	36,636	2,101	(19,754)	
PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	25	29	6. Miles Distribution		
2. Service Retired			8. Total Miles (5+6+7)		
3. Total Services in Place	1,096	1,125			
4. Idle Services (Exclude Seasonal)					

Form 7

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Page 1 of 2 Pages

FINANCIAL AND STATISTICAL REPORT				GRAHAM COUNTY UTILITIES, INC.	
				WATER SYSTEM	
Round ALL AMOUNTS to nearest dollar.				MONTH ENDING	
				December 31, 2007	
PART C. BALANCE SHEET					
ASSETS AND OTHER DEBITS			LIABILITIES AND OTHER CREDITS		
1. Total Utility Plant in Service	2,797,683		26. Memberships	2,500	
2. Construction Work in Progress	948,094		27. Patronage Capital	208,898	
3. Total Utility Plant (1 + 2)	3,745,777		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	1,690,312		29. Operating Margins - Current Year	23,707	
5. Net Utility Plant (3 -4)	2,055,465		30. Non Operating Margins	12,929	
6. Nonutility Property _ Net	-		31. Other Margins and Equities	-	
7. Invest in Assoc Org - Patronage Capital	-		32. Total Margins & Equities (26 thru 31)	248,034	
8. Invest in Assoc Org - General Funds	114,134		33. Long-Term Debt RUS (Net)	-	
9. Invest in Assoc Org - Nongeneral Funds	-		(Payments - Unapplied \$		
10. Other Investments	-		34. Long-Term Debt - Other (net)	2,168,509	
11. Special Funds	-		(Payments - Unapplied \$		
12. Total Other Property & Investments (6 thru 11)	114,134		35 Total Long-Term Debt(33 + 34)	2,168,509	
13. Cash - General Funds	32,891		36. Notes Payable	-	
14. Cash - Construction Funds - Trustee	-		37. Accounts Payable	25,526	
15. Special Deposits	-		38. Consumers Deposits	8,915	
16. Temporary Investments	1,518		39. Other Current & Accrued Liabilities	37,465	
17. Notes Receivable - Net	-		40. Total Current & Accrued Liab (36 thru 39)	71,906	
18. Accounts Receivable - Sales of Water	196,067		41. Deferred Credits	-	
19. Accounts Receivable - Net Other	-		42. Miscellaneous Operating Reserves	-	
20. Materials & Supplies - Water & Other	56,430		43. Total Liabilities & Other Credits (32 +	-	
21. Prepayments	12,509		35 + 40 thru 42)	2,488,449	
22. Other Current & Accrued Assets	-		ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION		
23. Total Current & Accrued Assets (13 thru 22)	299,415		Balance Beginning of Year	244,806	
24. Deferred Debits	19,435		Amounts Received This Year (Net)	257,520	
25. Total Assets & Other Debits (5+12+23+24)	2,488,449		TOTAL Contributions in Aid of Construction	502,326	
PART D. CONSUMER SALES AND REVENUE DATA					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	1,087	9,165,300	41,118	114,071,600	505,246
2. COMM & INDUSTRIAL	68	980,300	3,865	13,339,100	50,008
3. SALES FOR RESALE	2	2,053,800	3,201	23,894,300	37,280
4. TOTAL WATER SALES	1,157	12,199,400	48,184	151,305,000	592,534
5. OTHER WATER REVENUE			330		3,180
6. TOTAL	1,157	12,199,400	48,514	151,305,000	595,714
PART E. WATER STATISTICS					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	12,876,900	160,708,400	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	677,500	9,403,400
3. TOTAL	12,876,900	160,708,400	8. % SYSTEM LOSS	5.26%	5.85%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	12,199,400	151,305,000	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

FINANCIAL AND STATISTICAL REPORT
GRAHAM COUNTY UTILITIES, INC.
WATER SYSTEM
PIMA, AZ 85543

Round ALL AMOUNTS to nearest dollar.

MONTH ENDING
 December 31, 2006

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.


SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT

 1/26/07
DATE

SIGNATURE OF MANAGER

 1-26-07
DATE
PART A. STATEMENT OF OPERATIONS
DECEMBER

ITEM	YEAR-TO-DATE			DECEMBER
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	THIS MONTH (d)
1. Operating Revenue and Patronage Capital	565,794	566,658	571,788	45,593
2. Water Production Expense	-	-	-	-
3. Cost of Water Production	25,361	29,802	29,165	-
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	65,623	62,866	68,418	5,241
6. Distribution Expense - Maintenance	132,739	130,226	136,971	17,166
7. Consumer Accounts Expense	42,107	46,264	43,262	3,648
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	82,893	82,991	86,728	7,420
11. Total Operation & Maintenance Expense (2 - 10)	348,723	352,149	364,544	33,475
12. Depreciation and Amortization Expense	104,872	106,569	118,281	8,930
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	77,207	75,884	74,580	6,076
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	3,888	4,116	3,907	340
18. Other Deductions	-	-	-	-
19. Total Cost of Water Service (11 - 18)	534,691	538,718	561,312	48,821
20. Patronage Capital & Operating Margins (1 - 19)	31,104	27,940	10,476	(3,227)
21. Non Operating Margins - Interest	9,530	6,258	4,239	42
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	6,609	7,960	6,609	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	47,242	42,157	21,324	(3,186)

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	11	25	6. Miles Distribution		
2. Service Retired					
3. Total Services in Place	1,071	1,096	8. Total Miles (5+6+7)		
4. Idle Services (Exclude Seasonal)					

Form 7

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Page 1 of 2 Pages

FINANCIAL AND STATISTICAL REPORT	GRAHAM COUNTY UTILITIES, INC.
	WATER SYSTEM
	MONTH ENDING
Round ALL AMOUNTS to nearest dollar.	December 31, 2006

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	2,612,064	26. Memberships	2,500
2. Construction Work in Progress	299,419	27. Patronage Capital	166,740
3. Total Utility Plant (1 + 2)	2,911,484	28. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation & Amort.	1,582,014	29. Operating Margins - Current Year	27,940
5. Net Utility Plant (3 - 4)	1,329,470	30. Non Operating Margins	14,217
6. Nonutility Property _ Net	-	31. Other Margins and Equities	-
7. Invest in Assoc Org - Patronage Capital	-	32. Total Margins & Equities (26 thru 31)	211,398
8. Invest in Assoc Org - General Funds	119,094	33. Long-Term Debt RUS (Net)	-
9. Invest in Assoc Org - Nongeneral Funds	-	(Payments - Unapplied \$	
10. Other Investments	-	34. Long-Term Debt - Other (net)	1,282,943
11. Special Funds	-	(Payments - Unapplied \$	
12. Total Other Property & Investments (6 thru 11)	119,094	35 Total Long-Term Debt(33 + 34)	1,282,943
13. Cash - General Funds	18,163	36. Notes Payable	-
14. Cash - Construction Funds - Trustee	-	37. Accounts Payable	53,737
15. Special Deposits	-	38. Consumers Deposits	10,650
16. Temporary Investments	1,518	39. Other Current & Accrued Liabilities	16,118
17. Notes Receivable - Net	-	40. Total Current & Accrued Liab (36 thru 39)	80,505
18. Accounts Receivable - Sales of Water	11,386	41. Deferred Credits	-
19. Accounts Receivable - Net Other	-	42. Miscellaneous Operating Reserves	-
20. Materials & Supplies - Water & Other	60,898	43. Total Liabilities & Other Credits (32 +	-
21. Prepayments	11,452	35 + 40 thru 42)	1,574,845
22. Other Current & Accrued Assets	-	ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION	
23. Total Current & Accrued Assets (13 thru 22)	103,416	Balance Beginning of Year	223,356
24. Deferred Debits	22,865	Amounts Received This Year (Net)	21,450
25. Total Assets & Other Debits (5+12+23+24)	1,574,845	TOTAL Contributions in Aid of Construction	244,806

PART D. CONSUMER SALES AND REVENUE DATA

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	1,064	8,032,800	38,237	109,011,100	485,923
2. COMM & INDUSTRIAL	67	962,200	3,754	12,246,700	46,794
3. SALES FOR RESALE	2	2,174,000	3,383	20,212,200	31,720
4. TOTAL WATER SALES	1,133	11,169,000	45,373	141,470,000	564,438
5. OTHER WATER REVENUE			220		2,220
6. TOTAL	1,133	11,169,000	45,593	141,470,000	566,658

PART E. WATER STATISTICS

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	12,715,700	153,310,000	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	1,546,700	11,840,000
3. TOTAL	12,715,700	153,310,000	8. % SYSTEM LOSS	12.16%	7.72%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	11,169,000	141,470,000	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

FINANCIAL AND STATISTICAL REPORT

GRAHAM COUNTY UTILITIES, INC.
WATER SYSTEM
PIMA, AZ 85543

Round ALL AMOUNTS to nearest dollar.

MONTH ENDING
December 31, 2005

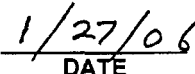
CERTIFICATION

38,442

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.



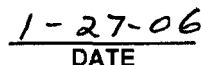
SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT



DATE



SIGNATURE OF MANAGER



DATE

PART A. STATEMENT OF OPERATIONS

DECEMBER

ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	555,846	565,794	558,486	44,304
2. Water Production Expense	-	-	-	-
3. Cost of Water Production	26,344	25,361	29,408	-
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	66,795	65,623	66,066	4,889
6. Distribution Expense - Maintenance	153,382	132,739	137,805	9,182
7. Consumer Accounts Expense	42,156	42,107	43,561	3,591
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	84,749	82,893	86,274	5,643
11. Total Operation & Maintenance Expense (2 - 10)	373,427	348,723	363,114	23,306
12. Depreciation and Amortization Expense	104,110	104,872	118,503	8,854
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	77,233	77,207	81,615	6,395
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	3,898	3,888	3,901	286
18. Other Deductions	-	-	-	-
19. Total Cost of Water Service (11 - 18)	558,668	534,691	567,133	38,840
20. Patronage Capital & Operating Margins (1 - 19)	(2,822)	31,104	(8,647)	5,464
21. Non Operating Margins - Interest	3,975	9,530	9,204	802
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	6,614	6,609	6,614	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	7,767	47,242	7,171	6,266

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	12	11	6. Miles Distribution		
2. Service Retired					
3. Total Services in Place	1,060	1,071	8. Total Miles (5+6+7)		
4. Idle Services (Exclude Seasonal)					

Form 7

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Page 1 of 2 Pages

FINANCIAL AND STATISTICAL REPORT			GRAHAM COUNTY UTILITIES, INC. WATER SYSTEM		
Round ALL AMOUNTS to nearest dollar.			MONTH ENDING December 31, 2005		
PART C. BALANCE SHEET					
ASSETS AND OTHER DEBITS			LIABILITIES AND OTHER CREDITS		
1. Total Utility Plant in Service	2,580,160		26. Memberships	2,500	
2. Construction Work in Progress	90,417		27. Patronage Capital	119,498	
3. Total Utility Plant (1 + 2)	2,670,577		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	1,475,444		29. Operating Margins - Current Year	31,104	
5. Net Utility Plant (3 -4)	1,195,132		30. Non Operating Margins	16,138	
6. Nonutility Property _ Net	-		31. Other Margins and Equities	-	
7. Invest in Assoc Org - Patronage Capital	-		32. Total Margins & Equities (26 thru 31)	169,240	
8. Invest in Assoc Org - General Funds	123,603		33. Long-Term Debt RUS (Net)	-	
9. Invest in Assoc Org - Nongeneral Funds	-		(Payments - Unapplied \$		
10. Other Investments	-		34. Long-Term Debt - Other (net)	1,368,648	
11. Special Funds	-		(Payments - Unapplied \$		
12. Total Other Property & Investments (6 thru 11)	123,603		35 Total Long-Term Debt(33 + 34)	1,368,648	
13. Cash - General Funds	17,698		36. Notes Payable	-	
14. Cash - Construction Funds - Trustee	-		37. Accounts Payable	12,311	
15. Special Deposits	-		38. Consumers Deposits	8,980	
16. Temporary Investments	1,518		39. Other Current & Accrued Liabilites	16,080	
17. Notes Receivable - Net	-		40. Total Current & Accrued Liab (36 thru 39)	37,370	
18. Accounts Receivable - Sales of Water	156,910		41. Deferred Credits	-	
19. Accounts Receivable - Net Other	-		42. Miscellaneous Operating Reserves	-	
20. Materials & Supplies - Water & Other	46,416		43. Total Liabilities & Other Credits (32 +	-	
21. Prepayments	7,686		35 + 40 thru 42)	1,575,258	
22. Other Current & Accrued Assets	-		ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION		
23. Total Current & Accrued Assets (13 thru 22)	230,228		Balance Beginning of Year	204,141	
24. Deferred Debits	26,294		Amounts Received This Year (Net)	19,215	
25. Total Assets & Other Debits (5+12+23+24)	1,575,258		TOTAL Contributions in Aid of Construction	223,356	
PART D. CONSUMER SALES AND REVENUE DATA					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	1,034	7,941,900	37,424	110,918,000	485,656
2. COMM & INDUSTRIAL	67	989,300	3,793	12,880,400	47,983
3. SALES FOR RESALE	2	1,832,500	2,867	19,148,600	30,114
4. TOTAL WATER SALES	1,103	10,763,700	44,084	142,947,000	563,754
5. OTHER WATER REVENUE			220		2,040
6. TOTAL	1,103	10,763,700	44,304	142,947,000	565,794
PART E. WATER STATISTICS					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	12,431,700	143,339,600	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	1,668,000	392,600
3. TOTAL	12,431,700	143,339,600	8. % SYSTEM LOSS	13.42%	0.27%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	10,763,700	142,947,000	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.	GRAHAM COUNTY UTILITIES, INC. WATER SYSTEM PIMA, AZ 85543 <hr/> MONTH ENDING December 31, 2004
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CERTIFICATION We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.	
<div style="text-align: center;"> SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT </div>	<div style="text-align: center;"> <u>1/27/05</u> DATE </div>
<div style="text-align: center;"> SIGNATURE OF MANAGER </div>	<div style="text-align: center;"> <u>1-27-05</u> DATE </div>

PART A. STATEMENT OF OPERATIONS				DECEMBER
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	567,503	555,846	571,590	41,061
2. Water Production Expense	-	-	-	-
3. Cost of Water Production	25,388	26,344	26,695	-
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	58,271	66,795	59,489	5,053
6. Distribution Expense - Maintenance	128,067	153,382	146,282	8,147
7. Consumer Accounts Expense	40,476	42,156	41,622	3,082
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	70,611	84,749	71,660	6,143
11. Total Operation & Maintenance Expense (2 - 10)	322,813	373,427	345,748	22,425
12. Depreciation and Amortization Expense	102,905	104,110	105,325	8,716
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	80,220	77,233	84,907	6,452
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	3,998	3,898	4,000	324
18. Other Deductions	-	-	-	-
19. Total Cost of Water Service (11 - 18)	509,936	558,668	539,980	37,918
20. Patronage Capital & Operating Margins (1 - 19)	57,568	(2,822)	31,610	3,143
21. Non Operating Margins - Interest	4,587	3,975	10,111	640
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	7,369	6,614	7,368	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	69,524	7,767	49,089	3,783

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	13	12	6. Miles Distribution		
2. Service Retired			8. Total Miles (5+6+7)		
3. Total Services in Place	1,048	1,060			
4. Idle Services (Exclude Seasonal)					

FINANCIAL AND STATISTICAL REPORT			GRAHAM COUNTY UTILITIES, INC.		
			WATER SYSTEM		
			MONTH ENDING		
Round ALL AMOUNTS to nearest dollar.			December 31, 2004		
PART C. BALANCE SHEET					
ASSETS AND OTHER DEBITS			LIABILITIES AND OTHER CREDITS		
1. Total Utility Plant in Service	2,548,822		26. Memberships	2,500	
2. Construction Work in Progress	5,104		27. Patronage Capital	111,731	
3. Total Utility Plant (1 + 2)	2,553,926		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	1,376,652		29. Operating Margins - Current Year	(2,822)	
5. Net Utility Plant (3 - 4)	1,177,274		30. Non Operating Margins	10,589	
6. Nonutility Property _ Net	-		31. Other Margins and Equities	-	
7. Invest in Assoc Org - Patronage Capital	-		32. Total Margins & Equities (26 thru 31)	121,998	
8. Invest in Assoc Org - General Funds	128,248		33. Long-Term Debt RUS (Net)	-	
9. Invest in Assoc Org - Nongeneral Funds	-		(Payments - Unapplied \$		
10. Other Investments	-		34. Long-Term Debt - Other (net)	1,450,000	
11. Special Funds	-		(Payments - Unapplied \$		
12. Total Other Property & Investments (6 thru 11)	128,248		35 Total Long-Term Debt(33 + 34)	1,450,000	
13. Cash - General Funds	17,430		36. Notes Payable	-	
14. Cash - Construction Funds - Trustee	-		37. Accounts Payable	5,469	
15. Special Deposits	-		38. Consumers Deposits	7,655	
16. Temporary Investments	1,518		39. Other Current & Accrued Liabilites	15,263	
17. Notes Receivable - Net	-		40. Total Current & Accrued Liab (36 thru 39)	28,387	
18. Accounts Receivable - Sales of Water	207,846		41. Deferred Credits	-	
19. Accounts Receivable - Net Other	-		42. Miscellaneous Operating Reserves	-	
20. Materials & Supplies - Water & Other	32,403		43. Total Liabilities & Other Credits (32 +	-	
21. Prepayments	5,942		35 + 40 thru 42)	1,600,385	
22. Other Current & Accrued Assets	-		ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION		
23. Total Current & Accrued Assets (13 thru 22)	265,139		Balance Beginning of Year	193,793	
24. Deferred Debits	29,724		Amounts Received This Year (Net)	10,348	
25. Total Assets & Other Debits (5+12+23+24)	1,600,385		TOTAL Contributions in Aid of Construction	204,141	
PART D. CONSUMER SALES AND REVENUE DATA					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	1,007	7,033,200	34,699	108,727,000	475,295
2. COMM & INDUSTRIAL	64	937,700	3,635	13,800,500	49,988
3. SALES FOR RESALE	2	1,634,000	2,567	17,975,700	28,343
4. TOTAL WATER SALES	1,073	9,604,900	40,901	140,503,200	553,626
5. OTHER WATER REVENUE			160		2,220
6. TOTAL	1,073	9,604,900	41,061	140,503,200	555,846
PART E. WATER STATISTICS					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	9,724,800	152,477,500	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	119,900	11,974,300
3. TOTAL	9,724,800	152,477,500	8. % SYSTEM LOSS	1.23%	7.85%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	9,604,900	140,503,200	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.	GRAHAM COUNTY UTILITIES, INC. WATER SYSTEM PIMA, AZ 85543 MONTH ENDING DECEMBER 31, 2003
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CERTIFICATION We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.	
<u>Russ Barney</u> SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT	<u>1/28/04</u> DATE
<u>Steve M. Lusa</u> SIGNATURE OF MANAGER	<u>1-28-04</u> DATE

PART A. STATEMENT OF OPERATIONS				DECEMBER
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	541,219	567,503	549,137	37,507
2. Water Production Expense	-	-	-	-
3. Cost of Water Production	18,725	25,388	19,458	1,627
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	59,963	58,271	62,176	4,837
6. Distribution Expense - Maintenance	177,365	128,067	166,568	5,640
7. Consumer Accounts Expense	36,477	40,476	37,599	3,292
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	71,851	70,611	74,435	6,197
11. Total Operation & Maintenance Expense (2 - 10)	364,380	322,813	360,236	21,592
12. Depreciation and Amortization Expense	101,337	102,905	100,088	8,632
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	85,069	80,220	84,989	6,369
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	3,969	3,998	4,251	322
18. Other Deductions	-	-	-	-
19. Total Cost of Water Service (11 - 18)	554,755	509,936	549,564	36,915
20. Patronage Capital & Operating Margins (1 - 19)	(13,536)	57,568	(427)	592
21. Non Operating Margins - Interest	6,285	4,587	8,811	470
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	8,376	7,369	8,376	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	1,125	69,524	16,761	1,062

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	17	13	6. Miles Distribution		
2. Service Retired			8. Total Miles (5+6+7)		
3. Total Services in Place	1,035	1,035			
4. Idle Services (Exclude Seasonal)					

FINANCIAL AND STATISTICAL REPORT			GRAHAM COUNTY UTILITIES, INC. WATER SYSTEM		
Round ALL AMOUNTS to nearest dollar.			MONTH ENDING DECEMBER 31, 2003		
PART C. BALANCE SHEET					
ASSETS AND OTHER DEBITS			LIABILITIES AND OTHER CREDITS		
1. Total Utility Plant in Service	2,531,039		26. Memberships	2,500	
2. Construction Work in Progress	(8,583)		27. Patronage Capital	42,208	
3. Total Utility Plant (1 + 2)	2,522,456		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	1,272,542		29. Operating Margins - Current Year	57,568	
5. Net Utility Plant (3 - 4)	1,249,915		30. Non Operating Margins	11,956	
6. Nonutility Property _ Net	-		31. Other Margins and Equities	-	
7. Invest in Assoc Org - Patronage Capital	-		32. Total Margins & Equities (26 thru 31)	114,231	
8. Invest in Assoc Org - General Funds	132,618		33. Long-Term Debt REA (Net)	-	
9. Invest in Assoc Org - Nongeneral Funds	-		(Payments - Unapplied \$		
10. Other Investments	-		34. Long-Term Debt - Other (net)	1,527,305	
11. Special Funds	-		(Payments - Unapplied \$		
12. Total Other Property & Investments (6 thru 11)	132,618		35 Total Long-Term Debt(33 + 34)	1,527,305	
13. Cash - General Funds	17,273		36. Notes Payable	-	
14. Cash - Construction Funds - Trustee	-		37. Accounts Payable	4,314	
15. Special Deposits	-		38. Consumers Deposits	7,260	
16. Temporary Investments	1,518		39. Other Current & Accrued Liabilities	15,809	
17. Notes Receivable - Net	-		40. Total Current & Accrued Liab (36 thru 39)	27,383	
18. Accounts Receivable - Sales of Water	190,250		41. Deferred Credits	-	
19. Accounts Receivable - Net Other	-		42. Miscellaneous Operating Reserves	-	
20. Materials & Supplies - Water & Other	35,254		43. Total Liabilities & Other Credits (32 + 35 + 40 thru 42)	1,668,920	
21. Prepayments	8,938				
22. Other Current & Accrued Assets	-		ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION		
23. Total Current & Accrued Assets (13 thru 22)	253,233		Balance Beginning of Year	157,539	
24. Deferred Debits	33,154		Amounts Received This Year (Net)	36,254	
25. Total Assets & Other Debits (5+12+23+24)	1,668,920		TOTAL Contributions in Aid of Construction	193,793	
PART D. CONSUMER SALES AND REVENUE DATA					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	982	6,107,700	31,900	110,717,900	478,440
2. COMM & INDUSTRIAL	63	748,900	3,136	16,331,100	56,569
3. SALES FOR RESALE	2	1,457,600	2,301	19,288,200	30,275
4. TOTAL WATER SALES	1,047	8,314,200	37,337	146,337,200	565,283
5. OTHER WATER REVENUE			170		2,220
6. TOTAL	1,047	8,314,200	37,507	146,337,200	567,503
PART E. WATER STATISTICS					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	8,935,100	155,186,500	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	620,900	8,849,300
3. TOTAL	8,935,100	155,186,500	8. % SYSTEM LOSS	6.95%	5.70%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	8,314,200	146,337,200	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.		GRAHAM COUNTY UTILITIES, INC WATER SYSTEM PIMA, AZ 85543 MONTH ENDING DECEMBER 31, 2002			
CERTIFICATION We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.					
<i>Russ Barney</i> SIGNATURE OF OFFICEMANAGER OR ACCOUNTANT		1/29/03 DATE			
<i>Steve M. Linn</i> SIGNATURE OF MANAGER		1-29-03 DATE			
PART A. STATEMENT OF OPERATIONS					
	YEAR-TO-DATE			DECEMBER	
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	THIS MONTH (d)	
1. Operating Revenue and Patronage Capital	505,034	541,219	499,032	42,556	
2. Water Production Expense	-	-	-	-	
3. Cost of Water Production	17,674	18,725	17,965	1,664	
4. Transmission Expense	-	-	-	-	
5. Distribution Expense - Operations	64,044	59,963	67,429	4,322	
6. Distribution Expense - Maintenance	99,594	177,365	100,765	16,887	
7. Consumer Accounts Expense	38,613	36,477	40,515	3,220	
8. Customer Service and Informational Expense	-	-	-	-	
9. Sales Expense	-	-	-	-	
10. Administrative and General Expense	67,015	71,851	70,268	5,169	
11. Total Operation & Maintenance Expense (2 - 10)	286,939	364,380	296,942	31,263	
12. Depreciation and Amortization Expense	94,536	101,337	95,299	8,503	
13. Tax Expense - Property	-	-	-	-	
14. Tax Expense - Other	-	-	-	-	
15. Interest on Long-Term Debt	93,009	85,069	91,803	6,605	
16. Interest Charged to Construction - Credi	-	-	-	-	
17. Interest Expense - Other	3,901	3,969	3,885	331	
18. Other Deductions	-	-	-	-	
19. Total Cost of Water Service (11 - 18)	478,385	554,755	487,929	46,701	
20. Patronage Capital & Operating Margins (1 - 19)	26,649	(13,536)	11,103	(4,145)	
21. Non Operating Margins - Interest	5,882	6,285	8,682	403	
22. Allowance for Funds Used During Construction	-	-	-	-	
23. Non Operating Margins - Other	-	-	-	-	
24. Generation & Transmission Capital Credits	-	-	-	-	
25. Other Capital Credits and Patronage Dividends	8,210	8,376	8,210	-	
26. Extraordinary Items	-	-	-	-	
27. Patronage Capital or Margins (20 - 26)	40,741	1,125	27,996	(3,743)	
PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLAN					
	YEAR-TO-DATE			YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	62	17	6. Miles Distribution		
2. Service Retired					
3. Total Services in Place	1,018	1,035			
4. Idle Services (Exclude Seasonal)			8. Total Miles (5+6+7)		

Form 7

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Page 1 of 2 Pages

FINANCIAL AND STATISTICAL REPORT			GRAHAM COUNTY UTILITIES, INC WATER SYSTEM		
Round ALL AMOUNTS to nearest dollar.			MONTH ENDING DECEMBER 31, 2002		
PART C. BALANCE SHEET					
ASSETS AND OTHER DEBITS			LIABILITIES AND OTHER CREDITS		
1. Total Utility Plant in Service	2,495,634		26. Memberships	2,500	
2. Construction Work in Progress	2,653		27. Patronage Capital	41,082	
3. Total Utility Plant (1 + 2)	2,498,286		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	1,176,149		29. Operating Margins - Current Year	(13,536)	
5. Net Utility Plant (3 - 4)	1,322,137		30. Non Operating Margins	14,661	
6. Nonutility Property _ Net	-		31. Other Margins and Equities	-	
7. Invest in Assoc Org - Patronage Capital	-		32. Total Margins & Equities (26 thru 31)	44,708	
8. Invest in Assoc Org - General Funds	135,458		33. Long-Term Debt REA (Net)	-	
9. Invest in Assoc Org - Nongeneral Funds	-		(Payments - Unapplied \$		
10. Other Investments	-		34. Long-Term Debt - Other (net)	1,600,846	
11. Special Funds	-		(Payments - Unapplied \$		
12. Total Other Property & Investments (6 thru 11)	135,458		35 Total Long-Term Debt(33 + 34)	1,600,846	
13. Cash - General Funds	17,145		36. Notes Payable	-	
14. Cash - Construction Funds - Trustee	-		37. Accounts Payable	13,084	
15. Special Deposits	-		38. Consumers Deposits	9,025	
16. Temporary Investments	1,518		39. Other Current & Accrued Liabilities	15,603	
17. Notes Receivable - Net	-		40. Total Current & Accrued Liab (36 thru 39)	37,713	
18. Accounts Receivable - Sales of Water	125,184		41. Deferred Credits	-	
19. Accounts Receivable - Net Other	-		42. Miscellaneous Operating Reserves	-	
20. Materials & Supplies - Water & Other	37,663		43. Total Liabilities & Other Credits (32 +	-	
21. Prepayments	7,578		35 + 40 thru 42)	1,683,266	
22. Other Current & Accrued Assets	-		ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION		
23. Total Current & Accrued Assets (13 thru 22)	189,088		Balance Beginning of Year	154,629	
24. Deferred Debits	36,583		Amounts Received This Year (Net)	2,910	
25. Total Assets & Other Debits (5+12+23+24)	1,683,266		TOTAL Contributions in Aid of Construction	157,539	
PART D. CONSUMER SALES AND REVENUE DATA					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	975	7,582,700	35,672	97,541,720	465,089
2. COMM & INDUSTRIAL	61	1,171,400	4,224	13,599,500	49,920
3. SALES FOR RESALE	1	1,609,300	2,480	15,563,600	24,139
4. TOTAL WATER SALES	1,037	10,363,400	42,376	126,704,820	539,149
5. OTHER WATER REVENUE			180		2,070
6. TOTAL	1,037	10,363,400	42,556	126,704,820	541,219
PART E. WATER STATISTICS					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	11,101,500	151,272,500	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	738,100	24,567,680
3. TOTAL	11,101,500	151,272,500	8. % SYSTEM LOSS	6.65%	16.24%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	10,363,400	126,704,820	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.	GRAHAM COUNTY UTILITIES, INC WATER SYSTEM PIMA, AZ 85543 MONTH ENDING DECEMBER 31, 2001
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CERTIFICATION We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.	
<i>Russ Barney</i> SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT	1/22/02 DATE
<i>Steve M. Linares</i> SIGNATURE OF MANAGER	1/22/02 DATE

PART A. STATEMENT OF OPERATIONS				DECEMBER
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	507,571	505,034	516,448	40,309
2. Water Production Expense	-	-	-	-
3. Cost of Water Production	17,805	17,674	19,002	1,471
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	62,570	64,044	63,422	4,723
6. Distribution Expense - Maintenance	87,421	99,594	97,516	14,856
7. Consumer Accounts Expense	38,268	38,613	40,796	3,245
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	79,960	67,015	83,964	5,585
11. Total Operation & Maintenance Expense (2 - 10)	286,025	286,939	304,699	29,880
12. Depreciation and Amortization Expense	93,425	94,536	97,419	8,302
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	94,146	93,009	94,836	6,958
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	3,703	3,901	3,698	328
18. Other Deductions	-	-	-	-
19. Total Cost of Water Service (11 - 18)	477,300	478,385	500,653	45,468
20. Patronage Capital & Operating Margins (1 - 19)	30,271	26,649	15,796	(5,159)
21. Non Operating Margins - Interest	8,813	5,882	9,194	1,182
22. Allowance for Funds Used During Construction				
23. Non Operating Margins - Other				
24. Generation & Transmission Capital Credits				
25. Other Capital Credits and Patronage Dividends	7,844	8,210	7,844	-
26. Extraordinary Items				
27. Patronage Capital or Margins (20 - 26)	46,927	40,741	32,833	(3,977)

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLAN					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	20	62	6. Miles Distribution		
2. Service Retired					
3. Total Services in Place	956	1,018			
4. Idle Services (Exclude Seasonal)			8. Total Miles (5+6+7)		

FINANCIAL AND STATISTICAL REPORT	GRAHAM COUNTY UTILITIES, INC
	WATER SYSTEM
Round ALL AMOUNTS to nearest dollar.	MONTH ENDING
	DECEMBER 31, 2001

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	2,464,913	26. Memberships	2,500
2. Construction Work in Progress	2,187	27. Patronage Capital	342
3. Total Utility Plant (1 + 2)	2,467,100	28. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation & Amort.	1,074,812	29. Operating Margins - Current Year	26,649
5. Net Utility Plant (3 - 4)	1,392,288	30. Non Operating Margins	14,092
6. Nonutility Property _ Net		31. Other Margins and Equities	
7. Invest in Assoc Org - Patronage Capital		32. Total Margins & Equities (26 thru 31)	43,582
8. Invest in Assoc Org - General Funds	138,127	33. Long-Term Debt REA (Net)	
9. Invest in Assoc Org - Nongeneral Funds		(Payments - Unapplied \$	
10. Other Investments		34. Long-Term Debt - Other (net)	1,672,723
11. Special Funds		(Payments - Unapplied \$	
12. Total Other Property & Investments (6 thru 11)	138,127	35 Total Long-Term Debt(33 + 34)	1,672,723
13. Cash - General Funds		36. Notes Payable	-
14. Cash - Construction Funds - Trustee		37. Accounts Payable	9,881
15. Special Deposits		38. Consumers Deposits	8,375
16. Temporary Investments	18,466	39. Other Current & Accrued Liabilities	17,623
17. Notes Receivable - Net		40. Total Current & Accrued Liab (36 thru 39)	35,879
18. Accounts Receivable - Sales of Water	126,931	41. Deferred Credits	
19. Accounts Receivable - Net Other		42. Miscellaneous Operating Reserves	
20. Materials & Supplies - Water & Other	29,854	43. Total Liabilities & Other Credits (32 +	
21. Prepayments	6,506	35 + 40 thru 42)	1,752,185
22. Other Current & Accrued Assets		ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION	
23. Total Current & Accrued Assets (13 thru 22)	181,758	Balance Beginning of Year	151,796
24. Deferred Debits	40,013	Amounts Received This Year (Net)	2,834
25. Total Assets & Other Debits (5+12+23+24)	1,752,185	TOTAL Contributions in Aid of Construction	154,629

PART D. CONSUMER SALES AND REVENUE DATA

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	966	7,133,300	34,200	96,125,800	430,934
2. COMM & INDUSTRIAL	58	883,700	3,383	12,252,100	44,687
3. SALES FOR RESALE	1	1,699,900	2,617	17,372,600	26,833
4. TOTAL WATER SALES	1,025	9,716,900	40,199	125,750,500	502,454
5. OTHER WATER REVENUE			110		2,580
6. TOTAL	1,025	9,716,900	40,309	125,750,500	505,034

PART E. WATER STATISTICS

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	9,820,900	133,473,000	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	104,000	7,722,500
3. TOTAL	9,820,900	133,473,000	8. % SYSTEM LOSS	1.06%	5.79%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	9,716,900	125,750,500	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.	GRAHAM COUNTY UTILITIES, INC. WATER SYSTEM PIMA, AZ 85543 MONTH ENDING DECEMBER 31, 2000
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CERTIFICATION We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.	
<u>Russ Barney</u> SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT	<u>1/24/01</u> DATE
<u>Steve M. Jones</u> SIGNATURE OF MANAGER	<u>1-25-01</u> DATE

PART A. STATEMENT OF OPERATIONS **DECEMBER**

ITEM	YEAR-TO-DATE			THIS MONTH (d)
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	492,333	507,571	484,361	33,692
2. Water Production Expense	-	-	-	-
3. Cost of Water Production	13,882	17,805	14,325	905
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	43,079	62,570	44,562	4,870
6. Distribution Expense - Maintenance	85,635	87,421	90,639	11,232
7. Consumer Accounts Expense	39,535	38,268	40,642	3,217
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	75,006	79,960	77,261	5,491
11. Total Operation & Maintenance Expense (2 - 10)	257,137	286,025	267,429	25,715
12. Depreciation and Amortization Expense	85,670	93,425	90,380	7,833
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	93,091	94,146	94,520	7,756
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	3,736	3,703	3,735	312
18. Other Deductions	-	-	-	-
19. Total Cost of Water Service (11 - 18)	439,633	477,300	456,064	41,616
20. Patronage Capital & Operating Margins (1 - 19)	52,700	30,271	28,297	(7,924)
21. Non Operating Margins - Interest	1,460	8,813	6,899	
22. Allowance for Funds Used During Construction				
23. Non Operating Margins - Other				
24. Generation & Transmission Capital Credits				
25. Other Capital Credits and Patronage Dividends	8,096	7,844	8,096	-
26. Extraordinary Items				
27. Patronage Capital or Margins (20 - 26)	62,256	46,927	43,292	(7,924)

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	18	20	6. Miles Distribution		
2. Service Retired					
3. Total Services in Place	936	956	8. Total Miles (5+6+7)		
4. Idle Services (Exclude Seasonal)					

FINANCIAL AND STATISTICAL REPORT			GRAHAM COUNTY UTILITIES, INC.		
			WATER SYSTEM		
Round ALL AMOUNTS to nearest dollar.			MONTH ENDING		
			DECEMBER 31, 2000		
PART C. BALANCE SHEET					
ASSETS AND OTHER DEBITS			LIABILITIES AND OTHER CREDITS		
1. Total Utility Plant in Service	2,316,315		26. Memberships	2,500	
2. Construction Work in Progress	147,885		27. Patronage Capital	84	
3. Total Utility Plant (1 + 2)	2,464,200		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	980,276		29. Operating Margins - Current Year	30,271	
5. Net Utility Plant (3 -4)	1,483,924		30. Non Operating Margins	16,657	
6. Nonutility Property _ Net			31. Other Margins and Equities		
7. Invest in Assoc Org - Patronage Capital			32. Total Margins & Equities (26 thru 31)	49,511	
8. Invest in Assoc Org - General Funds	140,586		33. Long-Term Debt REA (Net)		
9. Invest in Assoc Org - Nongeneral Funds			(Payments - Unapplied \$		
10. Other Investments			34. Long-Term Debt - Other (net)	1,673,615	
11. Special Funds			(Payments - Unapplied \$		
12. Total Other Property & Investments (6 thru 11)	140,586		35 Total Long-Term Debt(33 + 34)	1,673,615	
13. Cash - General Funds			36. Notes Payable	-	
14. Cash - Construction Funds - Trustee			37. Accounts Payable	103,109	
15. Special Deposits			38. Consumers Deposits	5,300	
16. Temporary Investments	1,518		39. Other Current & Accrued Liabilities	14,131	
17. Notes Receivable - Net			40. Total Current & Accrued Liab (36 thru 39)	122,539	
18. Accounts Receivable - Sales of Water	144,063		41. Deferred Credits		
19. Accounts Receivable - Net Other			42. Miscellaneous Operating Reserves		
20. Materials & Supplies - Water & Other	26,181		43. Total Liabilities & Other Credits (32 +		
21. Prepayments	5,951		35 + 40 thru 42)	1,845,665	
22. Other Current & Accrued Assets			ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION		
23. Total Current & Accrued Assets (13 thru 22)	177,713		Balance Beginning of Year	135,101	
24. Deferred Debits	43,442		Amounts Received This Year (Net)	18,174	
25. Total Assets & Other Debits (5+12+23+24)	1,845,665		TOTAL Contributions in Aid of Construction	153,275	
PART D. CONSUMER SALES AND REVENUE DATA					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	921	5,381,400	29,000	101,849,000	439,622
2. COMM & INDUSTRIAL	59	428,300	2,211	10,535,000	40,048
3. SALES FOR RESALE	1	1,490,800	2,301	16,762,100	25,911
4. TOTAL WATER SALES	981	7,300,500	33,512	129,146,100	505,581
5. OTHER WATER REVENUE			180		1,990
6. TOTAL	981	7,300,500	33,692	129,146,100	507,571
PART E. WATER STATISTICS					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	8,041,600	138,627,700	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	741,100	9,481,600
3. TOTAL	8,041,600	138,627,700	8. % SYSTEM LOSS	9.22%	6.84%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	7,300,500	129,146,100	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.	GRAHAM COUNTY UTILITIES, INC. WATER SYSTEM PIMA, AZ 85543 MONTH ENDING DECEMBER 31, 1999		
CERTIFICATION <i>We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.</i>			
<u>Russ Barney</u> SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT	<u>1/26/2000</u> DATE		
<u>Nelson Pech</u> SIGNATURE OF MANAGER	<u>1-26-2000</u> DATE		
PART A. STATEMENT OF OPERATIONS			
	DECEMBER		
ITEM	YEAR-TO-DATE	THIS MONTH	
	LAST YEAR (a)	THIS YEAR (b)	
	BUDGET (c)	(d)	
1. Operating Revenue and Patronage Capital	429,981	492,333	
2. Water Production Expense	-	-	
3. Cost of Water Production	13,758	13,882	
4. Transmission Expense	-	-	
5. Distribution Expense - Operations	42,566	43,079	
6. Distribution Expense - Maintenance	68,337	85,635	
7. Consumer Accounts Expense	37,976	39,535	
8. Customer Service and Informational Expense	-	-	
9. Sales Expense	-	-	
10. Administrative and General Expense	62,526	75,006	
11. Total Operation & Maintenance Expense (2 - 10)	225,164	257,137	
12. Depreciation and Amortization Expense	82,675	85,670	
13. Tax Expense - Property	-	-	
14. Tax Expense - Other	(205)	-	
15. Interest on Long-Term Debt	101,584	93,091	
16. Interest Charged to Construction - Credit	-	-	
17. Interest Expense - Other	1,454	3,736	
18. Other Deductions	-	-	
19. Total Cost of Water Service (11 - 18)	410,672	439,633	
20. Patronage Capital & Operating Margins (1 - 19)	19,309	52,700	
21. Non Operating Margins - Interest	636	1,460	
22. Allowance for Funds Used During Construction	-	-	
23. Non Operating Margins - Other	-	-	
24. Generation & Transmission Capital Credits	-	-	
25. Other Capital Credits and Patronage Dividends	11,529	8,096	
26. Extraordinary Items	-	-	
27. Patronage Capital or Margins (20 - 26)	31,474	62,256	
	42,032	(1,213)	
PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT			
ITEM	YEAR-TO-DATE	ITEM	YEAR-TO-DATE
	LAST YEAR (a)	THIS YEAR (b)	LAST YEAR (a)
	THIS YEAR (b)	LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	39	18	
2. Service Retired	-	-	6. Miles Distribution
3. Total Services in Place	918	936	
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)

FINANCIAL AND STATISTICAL REPORT	GRAHAM COUNTY UTILITIES, INC.
	WATER SYSTEM
Round ALL AMOUNTS to nearest dollar.	MONTH ENDING
	DECEMBER 31, 1999

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	2,295,601	26. Memberships	2,500
2. Construction Work in Progress	(8,996)	27. Patronage Capital	(26,808)
3. Total Utility Plant (1 + 2)	2,286,606	28. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation & Amort.	886,851	29. Operating Margins - Current Year	52,700
5. Net Utility Plant (3 - 4)	1,399,755	30. Non Operating Margins	9,556
6. Nonutility Property _ Net		31. Other Margins and Equities	
7. Invest in Assoc Org - Patronage Capital		32. Total Margins & Equities (26 thru 31)	37,948
8. Invest in Assoc Org - General Funds	142,915	33. Long-Term Debt REA (Net)	
9. Invest in Assoc Org - Nongeneral Funds		(Payments - Unapplied \$	
10. Other Investments		34. Long-Term Debt - Other (net)	1,686,851
11. Special Funds		(Payments - Unapplied \$	
12. Total Other Property & Investments (6 thru 11)	142,915	35 Total Long-Term Debt(33 + 34)	1,686,851
13. Cash - General Funds		36. Notes Payable	-
14. Cash - Construction Funds - Trustee		37. Accounts Payable	1,819
15. Special Deposits		38. Consumers Deposits	4,150
16. Temporary Investments	1,518	39. Other Current & Accrued Liabilities	12,581
17. Notes Receivable - Net		40. Total Current & Accrued Liab (36 thru 39)	18,550
18. Accounts Receivable - Sales of Water	122,285	41. Deferred Credits	
19. Accounts Receivable - Net Other		42. Miscellaneous Operating Reserves	
20. Materials & Supplies - Water & Other	24,934	43. Total Liabilities & Other Credits (32 +	
21. Prepayments	5,071	35 + 40 thru 42)	1,743,350
22. Other Current & Accrued Assets		ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION	
23. Total Current & Accrued Assets (13 thru 22)	153,807	Balance Beginning of Year	119,307
24. Deferred Debits	46,872	Amounts Received This Year (Net)	15,794
25. Total Assets & Other Debits (5+12+23+24)	1,743,350	TOTAL Contributions in Aid of Construction	135,101

PART D. CONSUMER SALES AND REVENUE DATA

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	899	7,346,600	33,691	97,469,000	426,829
2. COMM & INDUSTRIAL	56	804,800	3,149	10,546,800	40,106
3. SALES FOR RESALE	1	1,384,800	2,141	16,980,600	23,398
4. TOTAL WATER SALES	956	9,536,200	38,982	124,996,400	490,333
5. OTHER WATER REVENUE			150		2,000
6. TOTAL	956	9,536,200	39,132	124,996,400	492,333

PART E. WATER STATISTICS

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	10,611,900	135,356,806	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	1,075,700	10,360,406
3. TOTAL	10,611,900	135,356,806	8. % SYSTEM LOSS	10.14%	7.65%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	9,536,200	124,996,400	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.	GRAHAM COUNTY UTILITIES, INC. WATER SYSTEM PIMA, AZ 85543 MONTH ENDING DECEMBER 31, 1998				
CERTIFICATION <i>We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.</i>					
<u>Russ Barney</u> SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT	<u>1/22/99</u> DATE				
SIGNATURE OF MANAGER	DATE				
PART A. STATEMENT OF OPERATIONS					
	DECEMBER				
ITEM	YEAR-TO-DATE	THIS MONTH			
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)	
1. Operating Revenue and Patronage Capital	397,476	429,981	462,152	33,330	
2. Water Production Expense	-	-	-	-	
3. Cost of Water Production	16,297	13,758	16,646	960	
4. Transmission Expense	-	-	-	-	
5. Distribution Expense - Operations	15,228	42,566	16,609	2,997	
6. Distribution Expense - Maintenance	74,621	68,337	75,254	5,945	
7. Consumer Accounts Expense	25,036	37,976	28,664	2,974	
8. Customer Service and Informational Expense	-	-	-	-	
9. Sales Expense	-	-	-	-	
10. Administrative and General Expense	86,367	62,526	87,321	4,071	
11. Total Operation & Maintenance Expense (2 - 10)	217,550	225,164	224,494	16,947	
12. Depreciation and Amortization Expense	69,213	82,675	72,281	6,916	
13. Tax Expense - Property	18,721	-	26,400	-	
14. Tax Expense - Other	5,776	(205)	5,966	(17)	
15. Interest on Long-Term Debt	121,725	101,584	134,862	8,402	
16. Interest Charged to Construction - Credit	-	-	-	-	
17. Interest Expense - Other	305	1,454	913	306	
18. Other Deductions	-	-	-	-	
19. Total Cost of Water Service (11 - 18)	433,290	410,672	464,916	32,553	
20. Patronage Capital & Operating Margins (1 - 19)	(35,814)	19,309	(2,764)	776	
21. Non Operating Margins - Interest	398	636	664	-	
22. Allowance for Funds Used During Construction					
23. Non Operating Margins - Other					
24. Generation & Transmission Capital Credits					
25. Other Capital Credits and Patronage Dividends	12,322	11,529	12,321		
26. Extraordinary Items					
27. Patronage Capital or Margins (20 - 26)	(23,095)	31,474	10,221	776	
PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	22	39	6. Miles Distribution		
2. Service Retired			8. Total Miles		
3. Total Services in Place	879	918	(5+6+7)		
4. Idle Services (Exclude Seasonal)					

FINANCIAL AND STATISTICAL REPORT			GRAHAM COUNTY UTILITIES, INC.		
Round ALL AMOUNTS to nearest dollar.			WATER SYSTEM		
			MONTH ENDING		
			DECEMBER 31, 1998		
PART C. BALANCE SHEET					
ASSETS AND OTHER DEBITS			LIABILITIES AND OTHER CREDITS		
1. Total Utility Plant in Service	2,044,773		26. Memberships	2,500	
2. Construction Work in Progress	190,163		27. Patronage Capital	(58,282)	
3. Total Utility Plant (1 + 2)	2,234,935		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	801,181		29. Operating Margins - Current Year	19,309	
5. Net Utility Plant (3 -4)	1,433,755		30. Non Operating Margins	12,165	
6. Nonutility Property _ Net			31. Other Margins and Equities		
7. Invest in Assoc Org - Patronage Capital			32. Total Margins & Equities (26 thru 31)	(24,308)	
8. Invest in Assoc Org - General Funds	142,989		33. Long-Term Debt REA (Net)		
9. Invest in Assoc Org - Nongeneral Funds			(Payments - Unapplied \$		
10. Other Investments			34. Long-Term Debt - Other (net)	1,612,654	
11. Special Funds			(Payments - Unapplied \$		
12. Total Other Property & Investments (6 thru 11)	142,989		35 Total Long-Term Debt(33 + 34)	1,612,654	
13. Cash - General Funds			36. Notes Payable	-	
14. Cash - Construction Funds - Trustee			37. Accounts Payable	62,561	
15. Special Deposits			38. Consumers Deposits	4,080	
16. Temporary Investments	1,518		39. Other Current & Accrued Liabilities	11,522	
17. Notes Receivable - Net			40. Total Current & Accrued Liab (36 thru 39)	78,163	
18. Accounts Receivable - Sales of Water	7,445		41. Deferred Credits		
19. Accounts Receivable - Net Other			42. Miscellaneous Operating Reserves		
20. Materials & Supplies - Water & Other	23,575		43. Total Liabilities & Other Credits (32 +		
21. Prepayments	5,137		35 + 40 thru 42)	1,666,509	
22. Other Current & Accrued Assets			ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION		
23. Total Current & Accrued Assets (13 thru 22)	37,675		Balance Beginning of Year	101,876	
24. Deferred Debits	52,090		Amounts Received This Year (Net)	17,431	
25. Total Assets & Other Debits (5+12+23+24)	1,666,509		TOTAL Contributions in Aid of Construction	119,307	
PART D. CONSUMER SALES AND REVENUE DATA					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	GALLONS SOLD	AMOUNT	GALLONS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	892	5,542,500	28,952	94,947,100	376,174
2. COMM & INDUSTRIAL	54	607,800	2,613	9,295,900	32,669
3. SALES FOR RESALE	1	1,042,400	1,604	13,309,600	19,068
4. TOTAL WATER SALES	947	7,192,700	33,170	117,552,600	427,911
5. OTHER WATER REVENUE			160		2,070
6. TOTAL	947	7,192,700	33,330	117,552,600	429,981
PART E. WATER STATISTICS					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. WATER PUMPED	7,705,200	128,028,500	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	512,500	10,475,900
3. TOTAL	7,705,200	128,028,500	8. % SYSTEM LOSS	6.65%	8.18%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	7,192,700	117,552,600	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.
PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditors' Report		1
Financial Statements		
Balance Sheet	Exhibit A	2
Statement of Income and Accumulated Margins	Exhibit B	3
Statement of Cash Flows	Exhibit C	4
Notes to Financial Statements		5
Accompanying Information		
Independent Auditors' Report on Accompanying Information		14
Individual Department – Financial Statements		
Gas Department		
Balance Sheet	Schedule 1	15
Statement of Income and Accumulated Margins	Schedule 2	16
Statement of Cash Flows	Schedule 3	17
Water Department		
Balance Sheet	Schedule 4	18
Statement of Income and Accumulated Margins	Schedule 5	19
Statement of Cash Flows	Schedule 6	20
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		22
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133		24
Federal Financial Assistance Section		
Schedule of A-133 Findings and Questioned Costs		26
Schedule of Expenditures of Federal Awards		27

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

INDEPENDENT AUDITORS' REPORT

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2008 and 2007, and the related statements of income and accumulated margins, and cash flows for the years then ended. ~~These financial statements are the responsibility of the Cooperative's management.~~ Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2008, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Graham County Utilities, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and it is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 3, 2008

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

ASSETS

	September 30,	
	2008	2007
UTILITY PLANT		
Plant in Service	\$ 5,814,817	\$ 5,405,462
Construction Work in Progress	1,287,278	779,909
Plant Acquisition Adjustment	1,025,652	1,025,652
	<u>\$ 8,127,747</u>	<u>\$ 7,211,023</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>3,848,763</u>	<u>3,602,152</u>
	<u>\$ 4,278,984</u>	<u>\$ 3,608,871</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 243,099	\$ 253,219
CURRENT ASSETS		
Cash - General	\$ 44,517	\$ 51,571
Accounts Receivable (Less allowance for uncollectibles of \$80,217 in 2008 and \$59,203 in 2007)	71,765	102,206
Accounts Receivable - GCEC		26,193
Underbilled Consumers Fuel Cost	32,417	
Materials and Supplies	142,225	139,621
Other Current and Accrued Assets	32,475	51,933
Total Current Assets	<u>\$ 323,399</u>	<u>\$ 371,524</u>
DEFERRED CHARGES	<u>\$ 35,878</u>	<u>\$ 44,219</u>
	<u>\$ 4,881,360</u>	<u>\$ 4,277,833</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 30,629	\$ 30,680
Accumulated Margins	355,541	488,992
	<u>\$ 386,170</u>	<u>\$ 519,672</u>
LONG - TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,536,299	\$ 1,693,208
AEPCO Note Payable Less Current Maturities	25,667	45,834
Graham County Electric Cooperative Note Payable		
Less Current Maturities	14,607	56,335
USDA Rural Development Note Payable Less Current Maturities	1,557,427	1,372,878
	<u>\$ 3,134,000</u>	<u>\$ 3,168,255</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 238,628	\$ 217,761
Accounts Payable - Other	158,717	107,392
Accounts Payable - Graham County Electric Coop	817,693	
Overbilled Consumers Fuel Cost		113,137
Customers' Deposits and Prepayments	75,810	79,065
Accrued Taxes	55,232	57,135
Accrued Interest	15,110	15,416
Total Current Liabilities	<u>\$ 1,361,190</u>	<u>\$ 589,906</u>
	<u>\$ 4,881,360</u>	<u>\$ 4,277,833</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	September 30,	
	2008	2007
OPERATING REVENUES	\$ 4,373,004	\$ 4,241,224
OPERATING EXPENSES		
Purchased Gas	\$ 2,398,790	\$ 2,293,478
Power for Pumping	32,595	40,810
Operations	345,717	339,378
Maintenance	441,186	352,392
Consumer Accounts	334,466	290,383
Administrative and General	495,840	353,604
Depreciation and Amortization	246,611	223,187
Other Interest	35,768	27,458
Total Operating Expenses	\$ 4,330,973	\$ 3,920,690
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 42,031	\$ 320,534
Interest on Long-Term Debt	195,057	166,362
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ (153,026)	\$ 154,172
Capital Credits	14,142	15,724
NET OPERATING MARGINS (LOSS)	\$ (138,884)	\$ 169,896
NONOPERATING MARGINS		
Interest	5,433	7,295
NET MARGINS (LOSS)	\$ (133,451)	\$ 177,191
ACCUMULATED MARGINS - BEGINNING OF YEAR	488,992	311,801
ACCUMULATED MARGINS - END OF YEAR	\$ 355,541	\$ 488,992

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ (133,451)	\$ 177,191
Adjustments to Reconcile Net Margins to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	246,611	223,187
Capital Credits - Noncash	(4,242)	(4,717)
Over/(Under)billed Fuel Cost	(145,554)	36,328
Deferred Charges	8,341	8,340
Accounts Receivable	30,441	(7,879)
Inventories and Other Current Assets	16,853	(12,411)
Payables and Accrued Expenses	45,862	(44,654)
Net Payments to (from) - Graham County Electric Cooperative	843,886	(101,954)
Net Cash Provided by Operating Activities	\$ 908,747	\$ 273,431
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (916,725)	\$ (818,808)
Investments in Associated Organizations	14,362	14,015
Net Cash Used in Investing Activities	\$ (902,363)	\$ (804,793)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from USDA	\$ 206,278	\$ 893,722
Payments on Note Payable to AEPCO	(20,166)	(22,000)
Payments on Long-Term Debt to CFC	(146,108)	(264,393)
Payments on Long-Term Debt to GCEC	(38,761)	(36,004)
Payments on Long-Term Debt to USDA	(14,630)	(8,684)
Memberships	(51)	735
Net Cash Provided by (Used in) Financing Activities	\$ (13,438)	\$ 563,376
INCREASE (DECREASE) IN CASH	\$ (7,054)	\$ 32,014
CASH - BEGINNING OF YEAR	51,571	19,557
CASH - END OF YEAR	\$ 44,517	\$ 51,571
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 200,791	\$ 166,362
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

-5-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. (the Cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The Cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The Cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The Cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both Cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2008 and 2007, was estimated to be \$58,032 and \$68,146 in the gas department and \$36,270 and \$37,874 in the water department.

The Cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2008 and 2007, the Cooperative was underbilled \$32,417 and overbilled \$113,137, respectively.

Group Concentration of Credit Risk

The Cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The Cooperative records a receivable for gas and water service as billed on a monthly basis. The Cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$75,810 and \$79,065 at September 30, 2008 and 2007, respectively.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

-6-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Federal Income Tax Status

The Cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

Allowance for Uncollectible Accounts

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the Cooperative acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

-7-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2008			September 30,
	Gas	Water	Total	2007
	Department	Department		Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		555,938	555,938	554,337
Transmission		983,468	983,468	983,468
Distribution	3,359,500	505,829	3,865,329	3,427,206
General	194,478	111,451	305,929	336,298
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 3,597,916	\$ 2,216,901	\$ 5,814,817	\$ 5,405,462
Construction Work in Progress	101,760	1,185,518	1,287,278	779,909
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ <u>4,115,160</u>	\$ <u>4,012,587</u>	\$ <u>8,127,747</u>	\$ <u>7,211,023</u>

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas	Water
	Department	Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2008 and 2007, totaled \$246,611 and \$223,187, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

-8-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2008, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 299,149	\$ 439,320
Current Year	16,619	24,407
	<u>\$ 315,768</u>	<u>\$ 463,727</u>
Unamortized Adjustment	<u>\$ 99,716</u>	<u>\$ 146,441</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>
CFC		
Capital Term Certificates	\$ 152,510	\$ 160,547
Patronage Capital	83,463	85,545
Memberships	1,000	1,000
	<u>\$ 236,973</u>	<u>\$ 247,092</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	<u>\$ 6,126</u>	<u>\$ 6,127</u>
	<u>\$ 243,099</u>	<u>\$ 253,219</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2008	2007
Gas Department		
Rate Filing Costs	\$ 19,015	\$ 1,043
Unamortized Debt Expense	<u>19,015</u>	<u>22,883</u>
	\$ <u>19,015</u>	\$ <u>23,926</u>
Water Department		
Unamortized Debt Expense	\$ <u>16,863</u>	\$ <u>20,293</u>
	\$ <u>35,878</u>	\$ <u>44,219</u>

During 1998, the Cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2008 and 2007, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2008	2007
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	20,964	21,015
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	<u>4,665</u>	<u>4,665</u>
	\$ <u>30,629</u>	\$ <u>30,680</u>

-10-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007	69,003	36,636	105,639
2008 Nine Months	(101,532)	(15,774)	(117,306)
	\$ 125,783	\$ 311,793	\$ 437,576
Patronage Capital Retired		(82,035)	(82,035)
	\$ 125,783	\$ 229,758	\$ 355,541

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the year ended September 30, 2008 and 2007, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited.

-11-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	2008	2007
Fixed - 7.10%	\$ 743,396	\$ 839,549
Variable (4.90% in 2008, 7.05% in 2007)	256,966	288,114
Fixed - 7.45%	323,387	335,228
Fixed - 6.25%	366,550	373,517
	<u>\$ 1,690,299</u>	<u>\$ 1,836,408</u>
Less: Current Maturities	<u>154,000</u>	<u>143,200</u>
	<u>\$ 1,536,299</u>	<u>\$ 1,693,208</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$64,900. As of September 30, 2008, annual maturities of long-term debt due CFC for the next five years is as follows:

2009	154,000
2010	164,400
2011	175,600
2012	187,500
2013	200,300

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were met during the year ended September 30, 2008 and 2007.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2008	2007
5.000% Note Maturing March, 2032	\$ 144,052	\$ 147,205
4.500% Note Maturing August, 2035	252,271	257,006
4.500% Note Maturing July, 2040	87,529	88,746
4.125% Note Maturing March, 2047	1,094,475	893,721
	<u>\$ 1,578,327</u>	<u>\$ 1,386,678</u>
Less: Current Maturities	<u>20,900</u>	<u>13,800</u>
	<u>\$ 1,557,427</u>	<u>\$ 1,372,878</u>

-12-
GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2008, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2009	20,900
2010	21,900
2011	22,900
2012	23,900
2013	24,900

10. Graham County Electric Note Payable

During 1998, the Cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2008, is \$56,335. Annual maturities due to Graham County Electric Cooperative for the next two years are as follows:

2009	41,728
2010	14,607

11. AEPCO Note Payable

During 1999, the Cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2008, is \$47,667. Annual maturities due to AEPCO for the next three years are as follows:

2009	22,000
2010	22,000
2011	3,667

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

-13-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Intercompany balances between the two Cooperatives are summarized as follows:

	September 30,	
	<u>2008</u>	<u>2007</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (820,100)	\$
Accounts Receivable		26,193
Note Payable	<u>(56,335)</u>	<u>(95,096)</u>
Net Due to Affiliated Cooperative	<u>\$ (876,435)</u>	<u>\$ (68,903)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 820,100	\$
Accounts Payable		(26,193)
Note Receivable	<u>56,335</u>	<u>95,096</u>
Net Due from Affiliated Cooperative	<u>\$ 876,435</u>	<u>\$ 68,903</u>

13. Litigation

The Cooperative is not involved in any litigation that would materially affect the financial statements.

ACCOMPANYING INFORMATION

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**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 3, 2008

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 1

BALANCE SHEET
SEPTEMBER 30, 2008 AND 2007

ASSETS

	September 30,	
	2008	2007
UTILITY PLANT		
Plant in Service	\$ 3,597,916	\$ 3,277,807
Construction Work in Progress	101,760	17,984
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 4,115,160</u>	<u>\$ 3,711,275</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>2,070,451</u>	<u>1,940,945</u>
	<u>\$ 2,044,709</u>	<u>\$ 1,770,330</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 135,593	\$ 139,355
CURRENT ASSETS		
Cash	\$	\$ 10,330
Accounts Receivable (Less allowance for uncollectibles of \$65,606 in 2008 and \$47,607 in 2007)	57,220	80,176
Underbilled Consumers Fuel Cost	32,417	
Materials and Supplies	91,067	84,695
Other Current and Accrued Assets	20,562	35,952
Total Current Assets	<u>\$ 201,266</u>	<u>\$ 211,153</u>
Deferred Charges	\$ 19,015	\$ 23,926
	<u>\$ 2,400,583</u>	<u>\$ 2,144,764</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,129	\$ 28,180
Accumulated Deficits	125,783	234,158
	<u>\$ 153,912</u>	<u>\$ 262,338</u>
LONG -TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$ 14,607	\$ 56,335
CFC Mortgage Notes Less Current Maturities	1,113,729	1,221,807
	<u>\$ 1,128,336</u>	<u>\$ 1,278,142</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 148,128	\$ 123,361
Accounts Payable - Other	103,777	70,330
Accounts Payable - Graham County Electric Cooperative	750,751	16,156
Accounts Payable - Water Department		160,862
Overbilled Consumers Fuel Cost		113,137
Accrued Taxes	35,549	37,568
Customers' Deposits and Prepayments	67,270	69,875
Accrued Interest	12,860	12,995
Total Current Liabilities	<u>\$ 1,118,335</u>	<u>\$ 604,284</u>
	<u>\$ 2,400,583</u>	<u>\$ 2,144,764</u>

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	September 30,		Increase (Decrease)
	2008	2007	
OPERATING REVENUES			
Residential	\$ 2,658,038	\$ 2,717,738	\$ (59,700)
Irrigation	5,263	8,601	(3,338)
Commercial and Industrial	936,481	944,533	(8,052)
Fuel Cost Under (Over) Billed	144,749	(37,223)	181,972
Other Operating Revenues	21,520	22,280	(760)
Total Operating Revenues	<u>\$ 3,766,051</u>	<u>\$ 3,655,929</u>	<u>\$ 110,122</u>
OPERATING EXPENSES			
Purchased Gas	\$ 2,398,790	\$ 2,293,478	\$ 105,312
Operations	285,961	266,967	18,994
Maintenance	285,370	237,776	47,594
Customer Accounts	276,124	239,796	36,328
Administrative and General	394,362	264,696	129,666
Depreciation and Amortization	129,506	117,205	12,301
Other Interest	29,948	16,670	13,278
Total Operating Expenses	<u>\$ 3,800,061</u>	<u>\$ 3,436,588</u>	<u>\$ 363,473</u>
OPERATING MARGINS (LOSS) - Before Fixed Charges	<u>\$ (34,010)</u>	<u>\$ 219,341</u>	<u>\$ (253,351)</u>
FIXED CHARGES			
Interest on Long-Term Debt	<u>86,266</u>	<u>98,668</u>	<u>(12,402)</u>
OPERATING MARGINS (LOSS) - After Fixed Charges	<u>\$ (120,276)</u>	<u>\$ 120,673</u>	<u>\$ (240,949)</u>
Capital Credits	<u>10,168</u>	<u>9,372</u>	<u>796</u>
NET OPERATING MARGINS (LOSS)	<u>\$ (110,108)</u>	<u>\$ 130,045</u>	<u>\$ (240,153)</u>
NONOPERATING MARGINS			
Interest	<u>1,733</u>	<u>3,579</u>	<u>(1,846)</u>
NET MARGINS (LOSS)	<u>\$ (108,375)</u>	<u>\$ 133,624</u>	<u>\$ (241,999)</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>234,158</u>	<u>100,534</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 125,783</u>	<u>\$ 234,158</u>	

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ (108,375)	\$ 133,624
Adjustments to Reconcile Net Margins to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and Amortization	129,506	117,205
Capital Credits - Noncash	(3,050)	(2,812)
Deferred Charges	4,911	4,911
Over/(Under)billed Fuel Cost - Net	(145,554)	36,328
Accounts Receivable	22,956	(1,194)
Inventories and Other Current Assets	9,018	(23,911)
Payables and Accrued Expenses	28,688	(31,566)
Net Payments to - Water Department	(160,862)	132,812
Net Payments to - Graham County Electric Cooperative	734,595	(61,799)
Net Cash Provided by Operating Activities	\$ 511,833	\$ 303,598
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (403,886)	\$ (184,075)
Investments in Associated Organizations	6,812	7,150
Net Cash Used in Investing Activities	\$ (397,074)	\$ (176,925)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (86,277)	\$ (81,074)
Payments on Long-Term Debt - Graham County Electric Cooperative	(38,761)	(36,004)
Memberships	(51)	735
Net Cash Used in Financing Activities	\$ (125,089)	\$ (116,343)
INCREASE (DECREASE) IN CASH	\$ (10,330)	\$ 10,330
CASH - BEGINNING OF YEAR	10,330	0
CASH - END OF YEAR	\$ 0	\$ 10,330
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 92,006	\$ 98,668
Federal Income Tax	\$ 0	\$ 0

-18-
GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 4

BALANCE SHEET
SEPTEMBER 30, 2008 AND 2007

ASSETS

	September 30,	
	2008	2007
UTILITY PLANT AT COST		
Water Plant in Service	\$ 2,216,901	\$ 2,127,655
Construction Work in Progress	1,185,518	761,925
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 4,012,587</u>	<u>\$ 3,499,748</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>1,778,312</u>	<u>1,661,207</u>
	<u>\$ 2,234,275</u>	<u>\$ 1,838,541</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 107,506	\$ 113,864
CURRENT ASSETS		
Cash - General	\$ 44,517	\$ 41,241
Accounts Receivable - Customers (Less allowance for uncollectibles of \$14,611 in 2008 and \$11,596 in 2007)	14,545	22,030
Accounts Receivable - Graham County Electric Cooperative		42,349
Accounts Receivable - Gas Department		160,862
Materials and Supplies	51,158	54,926
Other Current and Accrued Assets	11,914	15,981
Total Current Assets	<u>\$ 122,134</u>	<u>\$ 337,389</u>
DEFERRED CHARGES	<u>\$ 16,863</u>	<u>\$ 20,293</u>
	<u>\$ 2,480,778</u>	<u>\$ 2,310,087</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	229,758	254,834
	<u>\$ 232,258</u>	<u>\$ 257,334</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 422,570	\$ 471,401
AEPKO Notes Payable Less Current Maturities	25,667	45,834
USDA Rural Development Notes Less Current Maturities	1,557,427	1,372,878
	<u>\$ 2,005,664</u>	<u>\$ 1,890,113</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 90,500	\$ 94,400
Accounts Payable - Other	54,940	37,062
Accounts Payable - Graham County Electric Cooperative	66,942	
Accrued Taxes	19,684	19,567
Customers' Deposits and Prepayments	8,540	9,190
Accrued Interest	2,250	2,421
Total Current Liabilities	<u>\$ 242,856</u>	<u>\$ 162,640</u>
	<u>\$ 2,480,778</u>	<u>\$ 2,310,087</u>

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	September 30,		Increase (Decrease)
	2008	2007	
OPERATING REVENUES			
Residential	\$ 520,702	\$ 495,134	\$ 25,568
Commercial and Industrial	48,371	50,055	(1,684)
Sales for Resale	33,910	37,395	(3,485)
Other Operating Revenues	3,970	2,710	1,260
Total Operating Revenues	<u>\$ 606,953</u>	<u>\$ 585,294</u>	<u>\$ 21,659</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 32,595	\$ 40,810	\$ (8,215)
Operations	59,756	72,411	(12,655)
Maintenance	155,816	114,616	41,200
Customer Accounts	58,342	50,587	7,755
Administrative and General	101,478	88,907	12,571
Depreciation and Amortization	117,105	105,982	11,123
Other Interest	5,820	11,679	(5,859)
Total Operating Expenses	<u>\$ 530,912</u>	<u>\$ 484,992</u>	<u>\$ 45,920</u>
OPERATING MARGINS - Before Fixed Charges	\$ 76,041	\$ 100,302	\$ (24,261)
FIXED CHARGES			
Interest on Long-Term Debt	<u>108,791</u>	<u>67,694</u>	<u>41,097</u>
OPERATING MARGINS (LOSS) - After Fixed Charge	\$ (32,750)	\$ 32,608	\$ (65,358)
Capital Credits	<u>3,974</u>	<u>6,352</u>	<u>(2,378)</u>
NET OPERATING MARGINS (LOSS)	\$ (28,776)	\$ 38,960	\$ (67,736)
NONOPERATING MARGINS			
Interest	<u>3,700</u>	<u>4,607</u>	<u>(907)</u>
NET MARGINS (LOSS)	\$ (25,076)	\$ 43,567	\$ (68,643)
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>254,834</u>	<u>211,267</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 229,758</u>	<u>\$ 254,834</u>	

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ (25,076)	\$ 43,567
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	117,105	105,982
Capital Credits - Noncash	(1,192)	(1,906)
Deferred Charges	3,430	3,429
Accounts Receivable	7,485	(6,685)
Inventories and Other Current Assets	7,835	11,500
Payables and Accrued Expenses	17,174	(13,089)
Net Advances from (to) - Gas Department	160,862	(132,812)
Net Payments from (to) - Graham County Electric Cooperative	109,291	(40,155)
Net Cash Provided by (Used in) Operating Activities	\$ 396,914	\$ (30,169)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (512,839)	\$ (634,732)
Investments in Associated Organizations	7,550	6,866
Net Cash Used in Investing Activities	\$ (505,289)	\$ (627,866)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from USDA	\$ 206,278	\$ 893,722
Payments on Note Payable to AEPCO	(20,166)	(22,000)
Payments on Long-Term Debt to CFC	(59,831)	(183,319)
Payments on Long-Term Debt to USDA	(14,630)	(8,684)
Net Cash Provided by Financing Activities	\$ 111,651	\$ 679,719
INCREASE IN CASH	\$ 3,276	\$ 21,684
CASH - BEGINNING OF YEAR	41,241	19,557
CASH - END OF YEAR	\$ 44,517	\$ 41,241
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 108,785	\$ 67,694
Federal Income Tax	\$ 0	\$ 0

COMPLIANCE AND INTERNAL CONTROL SECTION

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**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING
AUDITS OF CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2008, and have issued our report thereon dated November 3, 2008.

In connection with our audits nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 3, 2008

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2008, and have issued our report thereon dated November 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Board of Directors
Graham County Utilities, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This communication is intended for the information of the Board of Directors, management, USDA Rural Development, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 3, 2008

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

Compliance

We have audited the compliance of Graham County Utilities, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. Graham County Utilities, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of A-133 findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Graham County Utilities, Inc.'s management. Our responsibility is to express an opinion on Graham County Utilities, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graham County Utilities, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Graham County Utilities, Inc.'s compliance with those requirements.

In our opinion, Graham County Utilities, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of Graham County Utilities, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Graham County Utilities, Inc.'s internal control over compliance.

Board of Directors
Graham County Utilities, Inc.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Cooperative's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Cooperative's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these specified parties.

Bolinger, Legars, Gilbert & Moss LLP

Certified Public Accountants

November 3, 2008

FEDERAL FINANCIAL ASSISTANCE SECTION

**GRAHAM COUNTY UTILITIES, INC.
SCHEDULE OF A-133 FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

I. Summary of Auditors' Results

1. Type of auditor's report issued on the financial statements: **Unqualified**
2. Significant Deficiencies: **None.**
3. There were no significant deficiencies noted; therefore, there were no material weaknesses.
4. ~~Noncompliance which is material to the financial statements:~~ **None**
5. Type of auditor's report on compliance for major programs: **Unqualified**
6. Did the audit disclose findings which are required to be reported under Sec. __510(a): **No**
7. Major programs include:
 - 10.760 – Water and Waste Disposal Systems for Rural Communities
 - Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
8. Low risk auditee: **No**

II. Findings Related to the Financial Statements

The audit disclosed no findings required to be reported.

III. Findings and Questioned Costs Related to the Federal Awards

The audit disclosed no findings required to be reported.

GRAHAM COUNTY UTILITIES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures and Indirect Costs</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u> Water and Waste Disposal Systems for Rural Communities	10.760	\$ 837,241

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.
PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditors' Report		1
Financial Statements		
Balance Sheet	Exhibit A	2
Statement of Income and Accumulated Margins (Deficits)	Exhibit B	3
Statement of Cash Flows	Exhibit C	4
Notes to Financial Statements		5
Accompanying Information		
Independent Auditors' Report on Accompanying Information		14
Individual Department – Financial Statements		
Gas Department		
Balance Sheet	Schedule 1	15
Statement of Income and Accumulated Margins (Deficits)	Schedule 2	16
Statement of Cash Flows	Schedule 3	17
Water Department		
Balance Sheet	Schedule 4	18
Statement of Income and Accumulated Margins	Schedule 5	19
Statement of Cash Flows	Schedule 6	20
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		22
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133		24
Federal Financial Assistance Section		
Schedule of A-133 Findings and Questioned Costs		26
Schedule of Expenditures of Federal Awards		27

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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5215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1054

INDEPENDENT AUDITORS' REPORT

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2007 and 2006, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2007, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming a opinion on the financial statements of Graham County Utilities, Inc. and Subsidiary. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and it not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 15, 2007

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

ASSETS

	September 30,	
	2007	2006
UTILITY PLANT		
Plant in Service	\$ 5,405,462	\$ 5,086,880
Construction Work in Progress	779,909	279,683
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 7,211,023	\$ 6,392,215
Less: Accumulated Provision for Depreciation and Amortization	<u>3,602,152</u>	<u>3,378,966</u>
	<u>\$ 3,608,871</u>	<u>\$ 3,013,249</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 253,219	\$ 262,517
CURRENT ASSETS		
Cash - General	\$ 51,571	\$ 19,557
Accounts Receivable (Less allowance for uncollectibles of \$59,203 in 2007 and \$68,188 in 2006)	102,206	94,327
Accounts Receivable - GCEC	26,193	
Materials and Supplies	139,621	133,587
Other Current and Accrued Assets	<u>51,933</u>	<u>45,556</u>
Total Current Assets	\$ 371,524	\$ 293,027
DEFERRED CHARGES	\$ 44,219	\$ 52,559
	<u>\$ 4,277,833</u>	<u>\$ 3,621,352</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 30,680	\$ 29,945
Accumulated Margins	<u>488,992</u>	<u>311,801</u>
	\$ 519,672	\$ 341,746
LONG - TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,693,208	\$ 1,965,600
AEPCO Note Payable Less Current Maturities	45,834	67,834
Graham County Electric Cooperative Note Payable Less Current Maturities	56,335	95,096
USDA Rural Development Note Payable Less Current Maturities	<u>1,372,878</u>	<u>492,941</u>
	\$ 3,168,255	\$ 2,621,471
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 217,761	\$ 201,904
Accounts Payable - Other	107,392	147,077
Accounts Payable - Graham County Electric Coop		75,761
Overbilled Consumers Fuel Cost	113,137	76,809
Customers' Deposits and Prepayments	79,065	82,730
Accrued Payroll		927
Accrued Taxes	57,135	55,329
Accrued Interest	<u>15,416</u>	<u>17,598</u>
Total Current Liabilities	\$ 589,906	\$ 658,135
	<u>\$ 4,277,833</u>	<u>\$ 3,621,352</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,	
	2007	2006
OPERATING REVENUES	\$ 4,241,224	\$ 4,254,119
OPERATING EXPENSES		
Purchased Gas	\$ 2,293,478	\$ 2,425,984
Power for Pumping	40,810	27,050
Operations	339,378	290,160
Maintenance	352,392	322,259
Consumer Accounts	290,383	264,277
Administrative and General	353,604	340,817
Depreciation and Amortization	223,187	216,916
Other Interest	27,458	29,838
Total Operating Expenses	\$ 3,920,690	\$ 3,917,301
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 320,534	\$ 336,818
Interest on Long-Term Debt	166,362	179,003
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 154,172	\$ 157,815
Capital Credits	15,724	16,936
NET OPERATING MARGINS	\$ 169,896	\$ 174,751
NONOPERATING MARGINS		
Interest	7,295	12,237
NET MARGINS	\$ 177,191	\$ 186,988
ACCUMULATED MARGINS - BEGINNING OF YEAR	311,801	124,813
ACCUMULATED MARGINS - END OF YEAR	\$ 488,992	\$ 311,801

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 177,191	\$ 186,988
Adjustments to Reconcile Net Margins to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	223,187	216,916
Capital Credits - Noneash	(4,717)	(5,081)
Overbilled Fuel Cost	36,328	308,844
Deferred Charges	8,340	8,341
Accounts Receivable	(7,879)	35,383
Inventories and Other Current Assets	(12,411)	(25,261)
Payables and Accrued Expenses	(44,654)	47,423
Net Payments to (from) - Graham County Electric Cooperative	(101,954)	(238,672)
Net Cash Provided by Operating Activities	\$ 273,431	\$ 534,881
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (818,808)	\$ (356,165)
Investments in Associated Organizations	14,015	13,179
Net Cash Used in Investing Activities	\$ (804,793)	\$ (342,986)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from USDA	\$ 893,722	\$
Payments on Note Payable to AEPCO	(22,000)	(22,000)
Payments on Long-Term Debt to CFC	(264,393)	(128,230)
Payments on Long-Term Debt to GCEC	(36,004)	(33,444)
Payments on Long-Term Debt to USDA	(8,684)	(8,288)
Memberships	735	500
Net Cash Provided by (Used in) Financing Activities	\$ 563,376	\$ (191,462)
INCREASE IN CASH	\$ 32,014	\$ 433
CASH - BEGINNING OF YEAR	19,557	19,124
CASH - END OF YEAR	\$ 51,571	\$ 19,557
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 166,362	\$ 179,003
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

-5-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. (the cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2007 and 2006, was estimated to be \$68,146 and \$72,243 in the gas department and \$37,874 and \$37,533 in the water department.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2007 and 2006, the cooperative had overbilled of \$113,137 and \$76,809, respectively.

Group Concentration of Credit Risk

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$79,065 and \$82,730 at September 30, 2007 and 2006, respectively.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

-6-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Federal Income Tax Status

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

Allowance for Uncollectible Accounts

The cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2007			September 30,
	Gas	Water	Total	2006
	Department	Department		Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		554,337	554,337	463,178
Transmission		983,468	983,468	983,468
Distribution	3,118,398	308,808	3,427,206	3,238,369
General	115,471	220,827	336,298	304,212
Land and Land Rights	1,416	22,507	23,923	17,423
Total Plant in Service	\$ 3,277,807	\$ 2,127,655	\$ 5,405,462	\$ 5,086,880
Construction Work in Progress	17,984	761,925	779,909	279,683
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 3,711,275	\$ 3,499,748	\$ 7,211,023	\$ 6,392,215

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2007 and 2006, totaled \$223,187 and \$216,916, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a 25-year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

-8-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2007, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 282,529	\$ 414,914
Current Year	16,619	24,407
	<u>\$ 299,148</u>	<u>\$ 439,321</u>
Unamortized Adjustment	<u>\$ 116,336</u>	<u>\$ 170,847</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2007</u>	<u>2006</u>
CFC		
Capital Term Certificates	\$ 160,547	\$ 168,238
Patronage Capital	85,545	87,152
Memberships	1,000	1,000
	<u>\$ 247,092</u>	<u>\$ 256,390</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 6,127	\$ 6,127
	<u>\$ 253,219</u>	<u>\$ 262,517</u>

-9-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	<u>2007</u>	<u>2006</u>
Gas Department		
Rate Filing Costs	\$ 1,043	\$ 2,087
Unamortized Debt Expense	22,883	26,750
	<u>\$ 23,926</u>	<u>\$ 28,837</u>
Water Department		
Unamortized Debt Expense	\$ 20,293	\$ 23,722
	<u>\$ 44,219</u>	<u>\$ 52,559</u>

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2007 and 2006, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	<u>2007</u>	<u>2006</u>
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	21,015	20,280
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	<u>4,665</u>	<u>4,665</u>
	<u>\$ 30,680</u>	<u>\$ 29,945</u>

-10-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

<u>Calendar Year</u>	<u>Gas Department</u>	<u>Water Department</u>	<u>Total</u>
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007 Nine Months	75,846	45,938	121,784
	<u>\$ 234,158</u>	<u>\$ 336,869</u>	<u>\$ 571,027</u>
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ 234,158</u>	<u>\$ 254,834</u>	<u>\$ 488,992</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the year ended September 30, 2007 and 2006, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

-11-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	2007	2006
Fixed - 7.10%	\$ 839,549	\$ 929,167
Variable (7.05% in 2007, 7.30% in 2006)	288,114	316,644
Fixed - 7.45%	335,228	473,294
Fixed - 6.25%	373,517	381,695
	\$ 1,836,408	\$ 2,100,800
Less: Current Maturities	143,200	135,200
	<u>\$ 1,693,208</u>	<u>\$ 1,965,600</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$64,900. As of September 30, 2007, annual maturities of long-term debt due CFC for the next five years is as follows:

2008	\$ 143,200
2009	153,600
2010	164,800
2011	176,800
2012	189,600

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were met during the year ended September 30, 2007 and 2006.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2007	2006
5.000% Note Maturing March, 2032	\$ 147,205	\$ 150,203
4.500% Note Maturing August, 2035	257,006	261,530
4.500% Note Maturing July, 2040	88,746	89,908
4.125% Note Maturing March, 2047	893,721	
	\$ 1,386,678	\$ 501,641
Less: Current Maturities	13,800	8,700
	<u>\$ 1,372,878</u>	<u>\$ 492,941</u>

-12-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$6,496. As of September 30, 2007, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2008	\$ 13,800
2009	19,100
2010	20,000
2011	21,000
2012	21,900

Unadvanced loan funds of \$206,279 are available to the cooperative on loan commitments from USDA Rural Development.

10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2007, is \$95,096. Annual maturities due to Graham County Electric Cooperative for the next three years are as follows:

2008	\$ 38,761
2009	41,728
2010	14,607

11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2007, is \$67,834. Annual maturities due to AEPCO for the next four years are as follows:

2008	\$ 22,000
2009	22,000
2010	22,000
2011	1,834

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	2007	2006
Graham County Utilities, Inc.		
Accounts Payable	\$	\$ (75,761)
Accounts Receivable	26,193	
Note Payable	(95,096)	(131,100)
Net Due to Affiliated Cooperative	\$ (68,903)	\$ (206,861)
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$	\$ 75,761
Accounts Payable	(26,193)	
Note Receivable	95,096	131,100
Net Due from Affiliated Cooperative	\$ 68,903	\$ 206,861

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

ACCOMPANYING INFORMATION

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**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 15, 2007

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 1

BALANCE SHEET
SEPTEMBER 30, 2007 AND 2006

ASSETS

	September 30,	
	2007	2006
UTILITY PLANT		
Plant in Service	\$ 3,277,807	\$ 3,090,689
Construction Work in Progress	17,984	21,026
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 3,711,275</u>	<u>\$ 3,527,199</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>1,940,945</u>	<u>1,823,740</u>
	<u>\$ 1,770,330</u>	<u>\$ 1,703,459</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	<u>\$ 139,355</u>	<u>\$ 143,693</u>
CURRENT ASSETS		
Cash	\$ 10,330	\$
Accounts Receivable (Less allowance for uncollectibles of \$47,607 in 2007 and \$54,700 in 2006)	80,176	78,982
Materials and Supplies	84,695	65,567
Other Current and Accrued Assets	35,952	31,169
Total Current Assets	<u>\$ 211,153</u>	<u>\$ 175,718</u>
Deferred Charges	<u>\$ 23,926</u>	<u>\$ 28,837</u>
	<u>\$ 2,144,764</u>	<u>\$ 2,051,707</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,180	\$ 27,445
Accumulated Deficits	234,158	100,534
	<u>\$ 262,338</u>	<u>\$ 127,979</u>
LONG-TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$ 56,335	\$ 95,096
CFC Mortgage Notes Less Current Maturities	1,221,807	1,309,580
	<u>\$ 1,278,142</u>	<u>\$ 1,404,676</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 123,361	\$ 113,904
Accounts Payable - Other	70,330	97,297
Accounts Payable - Graham County Electric Cooperative	16,156	77,955
Accounts Payable - Water Department	160,862	28,050
Overbilled Consumers Fuel Cost	113,137	76,809
Accrued Taxes	37,568	36,501
Customers' Deposits and Prepayments	69,875	72,830
Accrued Payroll		771
Accrued Interest	12,995	14,935
Total Current Liabilities	<u>\$ 604,284</u>	<u>\$ 519,052</u>
	<u>\$ 2,144,764</u>	<u>\$ 2,051,707</u>

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,		Increase (Decrease)
	2007	2006	
OPERATING REVENUES			
Residential	\$ 2,717,738	\$ 2,901,626	\$ (183,888)
Irrigation	8,601	27,473	(18,872)
Commercial and Industrial	944,533	1,055,917	(111,384)
Fuel Cost Under (Over) Billed	(37,223)	(318,195)	280,972
Other Operating Revenues	22,280	21,180	1,100
Total Operating Revenues	<u>\$ 3,655,929</u>	<u>\$ 3,688,001</u>	<u>\$ (32,072)</u>
OPERATING EXPENSES			
Purchased Gas	\$ 2,293,478	\$ 2,425,984	\$ (132,506)
Operations	266,967	227,275	39,692
Maintenance	237,776	195,706	42,070
Customer Accounts	239,796	219,205	20,591
Administrative and General	264,696	261,096	3,600
Depreciation and Amortization	117,205	110,613	6,592
Other Interest	16,670	32,387	(15,717)
Total Operating Expenses	<u>\$ 3,436,588</u>	<u>\$ 3,472,266</u>	<u>\$ (35,678)</u>
OPERATING MARGINS - Before Fixed Charges	\$ 219,341	\$ 215,735	\$ 3,606
FIXED CHARGES			
Interest on Long-Term Debt	<u>98,668</u>	<u>102,568</u>	<u>(3,900)</u>
OPERATING MARGINS - After Fixed Charges	\$ 120,673	\$ 113,167	\$ 7,506
Capital Credits	<u>9,372</u>	<u>8,976</u>	<u>396</u>
NET OPERATING MARGINS	\$ 130,045	\$ 122,143	\$ 7,902
NONOPERATING MARGINS			
Interest	<u>3,579</u>	<u>10,654</u>	<u>(7,075)</u>
NET MARGINS	\$ 133,624	\$ 132,797	\$ 827
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>100,534</u>	<u>(32,263)</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 234,158</u>	<u>\$ 100,534</u>	

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 133,624	\$ 132,797
Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	117,205	110,613
Capital Credits - Noncash	(2,812)	(2,693)
Deferred Charges	4,911	4,911
Overbilled Fuel Cost - Net	36,328	308,844
Accounts Receivable	(1,194)	28,460
Inventories and Other Current Assets	(23,911)	5,081
Payables and Accrued Expenses	(31,566)	19,377
Net Payments to - Water Department	132,812	(118,440)
Net Payments to - Graham County Electric Cooperative	(61,799)	(236,443)
Net Cash Provided by Operating Activities	\$ 303,598	\$ 252,507
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (184,075)	\$ (151,914)
Investments in Associated Organizations	7,150	6,282
Net Cash Used in Investing Activities	\$ (176,925)	\$ (145,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (81,074)	\$ (73,931)
Payments on Long-Term Debt - Graham County Electric Cooperative	(36,004)	(33,444)
Memberships	735	500
Net Cash Used in Financing Activities	\$ (116,343)	\$ (106,875)
INCREASE IN CASH	\$ 10,330	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 10,330	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 98,668	\$ 102,568
Federal Income Tax	\$ 0	\$ 0

-18-
GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 4

BALANCE SHEET
SEPTEMBER 30, 2007 AND 2006

ASSETS

	September 30,	
	2007	2006
UTILITY PLANT AT COST		
Water Plant in Service	\$ 2,127,655	\$ 1,996,191
Construction Work in Progress	761,925	258,657
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 3,499,748</u>	<u>\$ 2,865,016</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>1,661,207</u>	<u>1,555,226</u>
	<u>\$ 1,838,541</u>	<u>\$ 1,309,790</u>
 OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 113,864	\$ 118,824
 CURRENT ASSETS		
Cash - General	\$ 41,241	\$ 19,557
Accounts Receivable - Customers (Less allowance for uncollectibles of \$11,596 in 2007 and \$13,488 in 2006)	22,030	15,345
Accounts Receivable - Graham County Electric Cooperative	42,349	2,194
Accounts Receivable - Gas Department	160,862	28,050
Materials and Supplies	54,926	68,020
Other Current and Accrued Assets	15,981	14,387
Total Current Assets	<u>\$ 337,389</u>	<u>\$ 147,553</u>
 DEFERRED CHARGES	<u>\$ 20,293</u>	<u>\$ 23,722</u>
	<u>\$ 2,310,087</u>	<u>\$ 1,599,889</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	254,834	211,267
	<u>\$ 257,334</u>	<u>\$ 213,767</u>
 LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 471,401	\$ 656,020
AEPCO Notes Payable Less Current Maturities	45,834	67,834
USDA Rural Development Notes Less Current Maturities	1,372,878	492,941
	<u>\$ 1,890,113</u>	<u>\$ 1,216,795</u>
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 94,400	\$ 88,000
Accounts Payable - Other	37,062	49,780
Accrued Taxes	19,567	18,828
Customers' Deposits and Prepayments	9,190	9,900
Accrued Payroll		156
Accrued Interest	2,421	2,663
Total Current Liabilities	<u>\$ 162,640</u>	<u>\$ 169,327</u>
	<u>\$ 2,310,087</u>	<u>\$ 1,599,889</u>

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,		Increase (Decrease)
	2007	2006	
OPERATING REVENUES			
Residential	\$ 495,134	\$ 487,140	\$ 7,994
Commercial and Industrial	50,055	46,612	3,443
Sales for Resale	37,395	30,236	7,159
Other Operating Revenues	2,710	2,130	580
Total Operating Revenues	\$ 585,294	\$ 566,118	\$ 19,176
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 40,810	\$ 27,050	\$ 13,760
Operations	72,411	62,885	9,526
Maintenance	114,616	126,553	(11,937)
Customer Accounts	50,587	45,072	5,515
Administrative and General	88,907	79,721	9,186
Depreciation and Amortization	105,982	106,303	(321)
Other Interest	11,679	4,062	7,617
Total Operating Expenses	\$ 484,992	\$ 451,646	\$ 33,346
OPERATING MARGINS - Before Fixed Charges	\$ 100,302	\$ 114,472	\$ (14,170)
FIXED CHARGES			
Interest on Long-Term Debt	67,694	76,445	(8,751)
OPERATING MARGINS - After Fixed Charges	\$ 32,608	\$ 38,027	\$ (5,419)
Capital Credits	6,352	7,960	(1,608)
NET OPERATING MARGINS	\$ 38,960	\$ 45,987	\$ (7,027)
NONOPERATING MARGINS			
Interest	4,607	8,204	(3,597)
NET MARGINS	\$ 43,567	\$ 54,191	\$ (10,624)
ACCUMULATED MARGINS - BEGINNING OF YEAR	211,267	157,076	
ACCUMULATED MARGINS - END OF YEAR	\$ 254,834	\$ 211,267	

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 43,567	\$ 54,191
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	105,982	106,303
Capital Credits - Noncash	(1,966)	(2,388)
Deferred Charges	3,429	3,430
Accounts Receivable	(6,685)	6,923
Inventories and Other Current Assets	11,500	(30,342)
Payables and Accrued Expenses	(13,089)	28,046
Net Advances from (to) - Gas Department	(132,812)	118,440
Net Payments from (to) - Graham County Electric Cooperative	(40,155)	(2,229)
Net Cash Provided by (Used in) Operating Activities	\$ (30,169)	\$ 282,374
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (634,732)	\$ (204,251)
Investments in Associated Organizations	6,866	6,897
Net Cash Used in Investing Activities	\$ (627,866)	\$ (197,354)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from USDA	\$ 893,722	\$
Payments on Note Payable to AEPCO	(22,000)	(22,000)
Payments on Long-Term Debt to CFC	(183,319)	(54,299)
Payments on Long-Term Debt to USDA	(8,684)	(8,288)
Net Cash Provided by (Used in) Financing Activities	\$ 679,719	\$ (84,587)
INCREASE IN CASH	\$ 21,684	\$ 433
CASH - BEGINNING OF YEAR	19,557	19,124
CASH - END OF YEAR	\$ 41,241	\$ 19,557
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 67,694	\$ 76,445
Federal Income Tax	\$ 0	\$ 0

COMPLIANCE AND INTERNAL CONTROL SECTION

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**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING
AUDITS OF CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2007, and have issued our report thereon dated November 15, 2007.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 15, 2007

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2007, and have issued our report thereon dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we do not express an opinion on the effectiveness of the company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Board of Directors
Graham County Utilities, Inc.

This communication is intended for the information of the Board of Directors, management, USDA Rural Development, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 15, 2007

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

Compliance

We have audited the compliance of Graham County Utilities, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. Graham County Utilities, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of A-133 findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Graham County Utilities, Inc.'s management. Our responsibility is to express an opinion on Graham County Utilities, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graham County Utilities, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Graham County Utilities, Inc.'s compliance with those requirements.

In our opinion, Graham County Utilities, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of Graham County Utilities, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Graham County Utilities, Inc.'s internal control over compliance.

Board of Directors
Graham County Utilities, Inc.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Cooperative's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Cooperative's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these specified parties.

Balinger, Rogers, Gilbert & Moss LLP

Certified Public Accountants

November 15, 2007

FEDERAL FINANCIAL ASSISTANCE SECTION

GRAHAM COUNTY UTILITIES, INC.
SCHEDULE OF A-133 FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

I. Summary of Auditors' Results

1. Type of auditor's report issued on the financial statements: **Unqualified**
2. Significant Deficiencies: **None.**
3. There were no significant deficiencies noted; therefore, there were no material weaknesses.
4. Noncompliance which is material to the financial statements: **None**
5. Type of auditor's report on compliance for major programs: **Unqualified**
6. Did the audit disclose findings which are required to be reported under Sec. __510(a): **No**
7. Major programs include:
 - 10.760 – Water and Waste Disposal Systems for Rural Communities
 - Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
8. Low risk auditee: **No**

II. Findings Related to the Financial Statements

The audit disclosed no findings required to be reported.

III. Findings and Questioned Costs Related to the Federal Awards

The audit disclosed no findings required to be reported.

GRAHAM COUNTY UTILITIES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures and Indirect Costs</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u> Water and Waste Disposal Systems for Rural Communities	10.760	\$ 500,000.45

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

NOTED BY THE STATE BOARD OF ACCOUNTS, ARIZONA
CERTIFIED PUBLIC ACCOUNTANTS

**GRAHAM COUNTY UTILITIES, INC.
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditors' Report		1
Financial Statements		
Balance Sheet	Exhibit A	2
Statement of Income and Accumulated Margins (Deficits)	Exhibit B	3
Statement of Cash Flows	Exhibit C	4
Notes to Financial Statements		5
Accompanying Information		
Independent Auditors' Report on Accompanying Information		14
Individual Department – Financial Statements		
Gas Department		
Balance Sheet	Schedule 1	15
Statement of Income and Accumulated Margins (Deficits)	Schedule 2	16
Statement of Cash Flows	Schedule 3	17
Water Department		
Balance Sheet	Schedule 4	18
Statement of Income and Accumulated Margins	Schedule 5	19
Statement of Cash Flows	Schedule 6	20
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		22

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2006 and 2005, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2006, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 1, 2006

-2-
GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

ASSETS

	September 30,	
	2006	2005
UTILITY PLANT		
Plant in Service	\$ 5,086,880	\$ 4,917,312
Construction Work in Progress	279,683	131,696
Plant Acquisition Adjustment	1,025,652	1,025,652
	<u>\$ 6,392,215</u>	<u>\$ 6,074,660</u>
Less: Accumulated Provision for Depreciation and Amortization	3,378,966	3,200,658
	<u>\$ 3,013,249</u>	<u>\$ 2,874,002</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 262,517	\$ 270,615
CURRENT ASSETS		
Cash - General	\$ 19,557	\$ 19,124
Accounts Receivable (Less allowance for uncollectibles of \$68,188 in 2006 and \$40,641 in 2005)	94,327	129,710
Underbilled Consumer Fuel Cost		232,035
Materials and Supplies	133,587	122,733
Other Current and Accrued Assets	45,556	31,149
Total Current Assets	<u>\$ 293,027</u>	<u>\$ 534,751</u>
DEFERRED CHARGES	\$ 52,559	\$ 60,900
	<u>\$ 3,621,352</u>	<u>\$ 3,740,268</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 29,945	\$ 29,445
Accumulated Margins	311,801	124,813
	<u>\$ 341,746</u>	<u>\$ 154,258</u>
LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,965,600	\$ 2,109,830
AEPKO Note Payable Less Current Maturities	67,834	89,834
Graham County Electric Cooperative Note Payable Less Current Maturities	95,096	131,100
USDA Rural Development Note Payable Less Current Maturities	492,941	501,629
	<u>\$ 2,621,471</u>	<u>\$ 2,832,393</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 201,904	\$ 182,944
Accounts Payable - Other	147,077	103,853
Accounts Payable - Graham County Electric Coop	75,761	314,433
Overbilled Consumers Fuel Cost	76,809	
Customers' Deposits and Prepayments	82,730	75,160
Accrued Payroll	927	3,487
Accrued Taxes	55,329	59,291
Accrued Interest	17,598	14,449
Total Current Liabilities	<u>\$ 658,135</u>	<u>\$ 753,617</u>
	<u>\$ 3,621,352</u>	<u>\$ 3,740,268</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	September 30,	
	2006	2005
OPERATING REVENUES	\$ 4,254,119	\$ 3,575,368
OPERATING EXPENSES		
Purchased Gas	\$ 2,425,984	\$ 1,846,966
Power for Pumping	27,050	24,647
Operations	290,160	294,506
Maintenance	322,259	314,284
Consumer Accounts	264,277	235,543
Administrative and General	340,817	346,782
Depreciation and Amortization	216,916	210,726
Other Interest	40,885	36,889
Total Operating Expenses	\$ 3,928,348	\$ 3,310,343
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 325,771	\$ 265,025
Interest on Long-Term Debt	167,956	169,880
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 157,815	\$ 95,145
Capital Credits	16,936	14,840
NET OPERATING MARGINS	\$ 174,751	\$ 109,985
NONOPERATING MARGINS		
Interest	12,237	16,851
NET MARGINS	\$ 186,988	\$ 126,836
ACCUMULATED MARGINS - BEGINNING OF YEAR	124,813	(2,023)
ACCUMULATED MARGINS - END OF YEAR	\$ 311,801	\$ 124,813

See accompanying notes to financial statements.

-4-
GRAHAM COUNTY UTILITIES, INC.

Exhibit C

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 186,988	\$ 126,836
Adjustments to Reconcile Net Margins to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	216,916	210,726
Capital Credits - Noncash	(16,936)	(14,840)
Overbilled Fuel Cost	308,844	(308,570)
Deferred Charges	8,341	5,702
Accounts Receivable	35,383	(62,733)
Inventories and Other Current Assets	(25,261)	(20,299)
Payables and Accrued Expenses	47,423	4,686
Net Payments to (from) - Graham County Electric Cooperative	(238,672)	493,166
Net Cash Provided by Operating Activities	<u>\$ 523,026</u>	<u>\$ 434,674</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (356,165)	\$ (274,887)
Investments in Associated Organizations	25,034	22,226
Net Cash Used in Investing Activities	<u>\$ (331,131)</u>	<u>\$ (252,661)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable to AEPCO	\$ (22,000)	\$ (23,833)
Payments on Long-Term Debt to CFC	(128,230)	(119,280)
Payments on Long-Term Debt to GCEC	(33,444)	(31,065)
Payments on Long-Term Debt to USDA	(8,288)	(7,904)
Memberships	500	285
Net Cash Used in Financing Activities	<u>\$ (191,462)</u>	<u>\$ (181,797)</u>
INCREASE IN CASH	<u>\$ 433</u>	<u>\$ 216</u>
CASH - BEGINNING OF YEAR	<u>19,124</u>	<u>18,908</u>
CASH - END OF YEAR	<u><u>\$ 19,557</u></u>	<u><u>\$ 19,124</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 107,956	\$ 169,880
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. (the cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2006 and 2005, was estimated to be \$72,243 and \$72,052 in the gas department and \$37,533 and \$39,983 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2006 and 2005, the cooperative had overbilled (underbilled) of \$318,195 and \$(300,362), respectively.

Group Concentration of Credit Risk

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$82,730 and \$75,160 at September 30, 2006 and 2005, respectively.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Federal Income Tax Status

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

Allowance for Uncollectible Accounts

The cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2006			September 30,
	Gas Department	Water Department	Total	2005 Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		464,181	464,181	475,536
Transmission		983,468	983,468	983,468
Distribution	2,941,387	296,982	3,238,369	3,064,798
General	105,364	197,845	303,209	295,857
Land and Land Rights	1,416	16,007	17,423	17,423
Total Plant in Service	\$ 3,090,689	\$ 1,996,191	\$ 5,086,880	\$ 4,917,312
Construction Work in Progress	21,026	258,657	279,683	131,696
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 3,527,199	\$ 2,865,016	\$ 6,392,215	\$ 6,074,660

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2006 and 2005, totaled \$216,916 and \$210,726, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a 25 year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2006, are summarized as follows:

	Gas Department	Water Department
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 265,910	\$ 390,507
Current Year	16,619	24,407
	\$ 282,529	\$ 414,914
Unamortized Adjustment	\$ 132,955	\$ 195,254

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	2006	2005
CFC		
Capital Term Certificates	\$ 168,238	\$ 175,093
Patronage Capital	87,152	88,395
Memberships	1,000	1,000
	\$ 256,390	\$ 264,488
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 6,127	\$ 6,127
	\$ 262,517	\$ 270,615

-9-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	<u>2006</u>	<u>2005</u>
Gas Department		
Rate Filing Costs	\$ 2,087	\$ 3,130
Unamortized Debt Expense	<u>26,750</u>	<u>30,618</u>
	<u>\$ 28,837</u>	<u>\$ 33,748</u>
Water Department		
Unamortized Debt Expense	<u>\$ 23,722</u>	<u>\$ 27,152</u>
	<u>23,722</u>	<u>27,152</u>
	<u>\$ 52,559</u>	<u>\$ 60,900</u>

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2006 and 2005, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	<u>2006</u>	<u>2005</u>
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	20,280	19,780
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	<u>4,665</u>	<u>4,665</u>
	<u>\$ 29,945</u>	<u>\$ 29,445</u>

-10-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006 Nine Months	84,023	44,528	128,551
	<u>\$ 100,534</u>	<u>\$ 293,302</u>	<u>\$ 393,836</u>
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ 100,534</u>	<u>\$ 211,267</u>	<u>\$ 311,801</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2006 and 2005, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	2006	2005
Fixed - 7.10%	\$ 929,167	\$ 1,012,695
Variable (7.30% in 2006, 5.85% in 2005)	316,644	342,776
Fixed - 7.45%	473,294	483,510
Fixed - 4.30%	381,695	390,049
	<u>\$ 2,100,800</u>	<u>\$ 2,229,030</u>
Less: Current Maturities	<u>135,200</u>	<u>119,200</u>
	<u>\$ 1,965,600</u>	<u>\$ 2,109,830</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$64,900. As of September 30, 2006, annual maturities of long-term debt due CFC for the next five years is as follows:

2007	\$ 135,200
2008	145,000
2009	155,300
2010	166,600
2011	178,500

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2006	2005
5% Note Maturing March 2032	\$ 150,203	\$ 153,056
4.5% Note Maturing August 2035	261,530	265,855
4.5% Note Maturing July 2040	89,908	91,024
	<u>\$ 501,641</u>	<u>\$ 509,935</u>
Less: Current Maturities	<u>8,700</u>	<u>8,306</u>
	<u>\$ 492,941</u>	<u>\$ 501,629</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$2,652. As of September 30, 2006, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2007	\$ 8,700
2008	9,100
2009	9,500
2010	10,000
2011	10,500

10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2006, is \$131,100. Annual maturities due to Graham County Electric Cooperative for the next four years are as follows:

2007	\$ 36,004
2008	38,800
2009	41,700
2010	14,596

11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2006, is \$89,834. Annual maturities due to AEPCO for the next five years are as follows:

2007	\$ 22,000
2008	22,000
2009	22,000
2010	22,000
2011	1,834

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

-13-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	<u>2006</u>	<u>2005</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (75,766)	\$ (314,433)
Note Payable	<u>(131,100)</u>	<u>(164,544)</u>
Net Due to Affiliated Cooperative	<u>\$ (206,866)</u>	<u>\$ (478,977)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 75,766	\$ 164,544
Note Receivable	<u>131,100</u>	<u>314,433</u>
Net Due from Affiliated Cooperative	<u>\$ 206,866</u>	<u>\$ 478,977</u>

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

ACCOMPANYING INFORMATION

1. **DESCRIPTION OF THE PROPERTY**
2. **DEVELOPMENTAL HISTORY**

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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1623 10TH STREET

LUBBOCK, TEXAS 79401-2685

**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 1, 2006

-15-
GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 1

BALANCE SHEET
SEPTEMBER 30, 2006 AND 2005

ASSETS

	September 30,	
	2006	2005
UTILITY PLANT		
Plant in Service	\$ 3,090,689	\$ 2,941,956
Construction Work in Progress	21,026	50,374
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 3,527,199</u>	<u>\$ 3,407,814</u>
Less: Accumulated Provision for Depreciation and Amortization	1,823,740	1,745,656
	<u>\$ 1,703,459</u>	<u>\$ 1,662,158</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 143,693	\$ 147,282
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$54,700 in 2006 and \$31,111 in 2005)	\$ 78,982	\$ 107,442
Underbilled Consumers Fuel Cost		232,035
Materials and Supplies	65,567	78,458
Other Current and Accrued Assets	31,169	23,359
Total Current Assets	<u>\$ 175,718</u>	<u>\$ 441,294</u>
Deferred Charges	\$ 28,837	\$ 33,748
	<u>\$ 2,051,707</u>	<u>\$ 2,284,482</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 27,445	\$ 26,945
Accumulated Margins (Deficits)	100,534	(32,263)
	<u>\$ 127,979</u>	<u>\$ (5,318)</u>
LONG -TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$ 95,096	\$ 131,100
CFC Mortgage Notes Less Current Maturities	1,309,580	1,391,511
	<u>\$ 1,404,676</u>	<u>\$ 1,522,611</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 113,904	\$ 103,344
Accounts Payable - Other	97,297	82,796
Accounts Payable - Graham County Electric Cooperative	77,955	314,398
Accounts Payable - Water Department	28,050	146,490
Overbilled Consumers Fuel Cost	76,809	
Accrued Taxes	36,501	38,682
Customers' Deposits and Prepayments	72,830	66,480
Accrued Payroll	771	2,878
Accrued Interest	14,935	12,121
Total Current Liabilities	<u>\$ 519,052</u>	<u>\$ 767,189</u>
	<u>\$ 2,051,707</u>	<u>\$ 2,284,482</u>

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	September 30,		Increase (Decrease)
	2006	2005	
OPERATING REVENUES			
Residential	\$ 2,901,626	\$ 2,047,559	\$ 854,067
Irrigation	27,473	13,332	14,141
Commercial and Industrial	1,055,917	629,413	426,504
Fuel Cost Under (Over) Billed	(318,195)	300,362	(618,557)
Other Operating Revenues	21,180	19,700	1,480
Total Operating Revenues	\$ 3,688,001	\$ 3,010,366	\$ 677,635
OPERATING EXPENSES			
Purchased Gas	\$ 2,425,984	\$ 1,846,966	\$ 579,018
Operations	227,275	229,205	(1,930)
Maintenance	195,706	182,330	13,376
Customer Accounts	219,205	194,397	24,808
Administrative and General	261,096	261,449	(353)
Depreciation and Amortization	110,613	106,226	4,387
Other Interest	43,444	33,002	10,442
Total Operating Expenses	\$ 3,483,323	\$ 2,853,575	\$ 629,748
OPERATING MARGINS - Before Fixed Charges	\$ 204,678	\$ 156,791	\$ 47,887
FIXED CHARGES			
Interest on Long-Term Debt	91,511	92,640	(1,129)
OPERATING MARGINS - After Fixed Charges	\$ 113,167	\$ 64,151	\$ 49,016
Capital Credits	8,976	7,453	1,523
NET OPERATING MARGINS	\$ 122,143	\$ 71,604	\$ 50,539
NONOPERATING MARGINS			
Interest	10,654	8,327	2,327
NET MARGINS	\$ 132,797	\$ 79,931	\$ 52,866
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(32,263)	(112,194)	
ACCUMULATED MARGINS (DEFICITS) - END OF YEAR	\$ 100,534	\$ (32,263)	

-17-
GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 132,797	\$ 79,931
Adjustments to Reconcile Net Margins to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and Amortization	110,613	106,226
Capital Credits - Noncash	(8,976)	(7,453)
Deferred Charges	4,911	2,273
Overbilled Fuel Cost - Net	308,844	(308,570)
Accounts Receivable	28,460	(52,066)
Inventories and Other Current Assets	5,081	(5,889)
Payables and Accrued Expenses	19,377	(218)
Net Payments to - Water Department	(118,440)	116,017
Net Payments to - Graham County Electric Cooperative	(236,443)	316,933
Net Cash Provided by Operating Activities	<u>\$ 246,224</u>	<u>\$ 247,184</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (151,914)	\$ (158,515)
Investments in Associated Organizations	12,565	10,989
Net Cash Used in Investing Activities	<u>\$ (139,349)</u>	<u>\$ (147,526)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (73,931)	\$ (68,878)
Payments on Long-Term Debt - Graham County Electric Cooperative	(33,444)	(31,065)
Memberships	500	285
Net Cash Used in Financing Activities	<u>\$ (106,875)</u>	<u>\$ (99,658)</u>
INCREASE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 91,511	\$ 92,640
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 4

BALANCE SHEET
SEPTEMBER 30, 2006 AND 2005

ASSETS

	September 30,	
	2006	2005
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,996,191	\$ 1,975,356
Construction Work in Progress	258,657	81,322
Plant Acquisition Adjustment	610,168	610,168
	\$ 2,865,016	\$ 2,666,846
Less: Accumulated Provision for Depreciation and Amortization	<u>1,555,226</u>	<u>1,455,002</u>
	\$ 1,309,790	\$ 1,211,844
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 118,824	\$ 123,333
CURRENT ASSETS		
Cash - General	\$ 19,557	\$ 19,124
Accounts Receivable - Customers (Less allowance for uncollectibles of \$13,488 in 2006 and \$9,530 in 2005)	15,345	22,268
Accounts Receivable - Graham County Electric Cooperative	2,194	
Accounts Receivable - Gas Department	28,050	146,490
Materials and Supplies	68,020	44,275
Other Current and Accrued Assets	14,387	7,790
Total Current Assets	\$ 147,553	\$ 239,947
DEFERRED CHARGES	\$ 23,722	\$ 27,152
	\$ 1,599,889	\$ 1,602,276

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	211,267	157,076
	\$ 213,767	\$ 159,576
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 656,020	\$ 718,319
AEP CO Notes Payable Less Current Maturities	67,834	89,834
USDA Rural Development Notes Less Current Maturities	492,941	501,629
	\$ 1,216,795	\$ 1,309,782
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 88,000	\$ 79,600
Accounts Payable - Other	49,780	21,057
Accounts Payable - Related Parties		35
Accrued Taxes	18,828	20,609
Customers' Deposits and Prepayments	9,900	8,680
Accrued Payroll	156	609
Accrued Interest	2,663	2,328
Total Current Liabilities	\$ 169,327	\$ 132,918
	\$ 1,599,889	\$ 1,602,276

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	September 30,		Increase (Decrease)
	2006	2005	
OPERATING REVENUES			
Residential	\$ 487,140	\$ 484,743	\$ 2,397
Commercial and Industrial	46,612	48,192	(1,580)
Sales for Resale	30,236	29,907	329
Other Operating Revenues	2,130	2,160	(30)
Total Operating Revenues	\$ 566,118	\$ 565,002	\$ 1,116
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 27,050	\$ 24,647	\$ 2,403
Operations	62,885	65,301	(2,416)
Maintenance	126,553	131,954	(5,401)
Customer Accounts	45,072	41,146	3,926
Administrative and General	79,721	85,333	(5,612)
Depreciation and Amortization	106,303	104,500	1,803
Other Interest	4,062	3,887	175
Total Operating Expenses	\$ 451,646	\$ 456,768	\$ (5,122)
OPERATING MARGINS - Before Fixed Charges	\$ 114,472	\$ 108,234	\$ 6,238
FIXED CHARGES			
Interest on Long-Term Debt	76,445	77,240	(795)
OPERATING MARGINS - After Fixed Charges	\$ 38,027	\$ 30,994	\$ 7,033
Capital Credits	7,960	7,387	573
NET OPERATING MARGINS	\$ 45,987	\$ 38,381	\$ 7,606
NONOPERATING MARGINS			
Interest	8,204	8,524	(320)
NET MARGINS	\$ 54,191	\$ 46,905	\$ 7,286
ACCUMULATED MARGINS - BEGINNING OF YEAR	157,076	110,171	
ACCUMULATED MARGINS - END OF YEAR	\$ 211,267	\$ 157,076	

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 54,191	\$ 46,905
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	106,303	104,500
Capital Credits - Noncash	(7,960)	(7,387)
Deferred Charges	3,430	3,429
Accounts Receivable	6,923	(10,667)
Inventories and Other Current Assets	(30,342)	(14,410)
Payables and Accrued Expenses	28,046	4,904
Net Advances from (to) - Gas Department	118,440	(116,017)
Net Payments from (to) - Graham County Electric Cooperative	(2,229)	176,233
Net Cash Provided by Operating Activities	\$ 276,802	\$ 187,490
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (204,251)	\$ (116,372)
Investments in Associated Organizations	12,469	11,237
Net Cash Used in Investing Activities	\$ (191,782)	\$ (105,135)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable to AEPCO	\$ (22,000)	\$ (23,833)
Payments on Long-Term Debt to CFC	(54,299)	(50,402)
Payments on Long-Term Debt to USDA	(8,288)	(7,904)
Net Cash Used in Financing Activities	\$ (84,587)	\$ (82,139)
INCREASE IN CASH	\$ 433	\$ 216
CASH - BEGINNING OF YEAR	19,124	18,908
CASH - END OF YEAR	\$ 19,557	\$ 19,124
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 16,445	\$ 77,240
Federal Income Tax	\$ 0	\$ 0

COMPLIANCE AND INTERNAL CONTROL SECTION

THESE PARTS, INCLUDING SECTION 4, SHOULD BE
REMOVED FROM THE DOCUMENT

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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1623 10TH STREET

LUBBOCK, TEXAS 79401-2685

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING
AUDITS OF CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2006, and have issued our report thereon dated November 1, 2006.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

November 1, 2006

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2006, and have issued our report thereon dated November 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

November 1, 2006

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

WILSON, TAYLOR & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**GRAHAM COUNTY UTILITIES, INC.
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditors' Report		1
Financial Statements		
Balance Sheet	Exhibit A	2
Statement of Income and Accumulated Margins (Deficits)	Exhibit B	3
Statement of Cash Flows	Exhibit C	4
Notes to Financial Statements		5
Accompanying Information		
Independent Auditors' Report on Accompanying Information		14
Individual Department - Financial Statements		
Gas Department		
Balance Sheet	Schedule 1	15
Statement of Income and Accumulated Margins (Deficits)	Schedule 2	16
Statement of Cash Flows	Schedule 3	17
Water Department		
Balance Sheet	Schedule 4	18
Statement of Income and Accumulated Margins	Schedule 5	19
Statement of Cash Flows	Schedule 6	20
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		22

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2005 and 2004, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2005, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 27, 2005

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

ASSETS

	September 30,	
	2005	2004
UTILITY PLANT		
Plant in Service	\$ 4,917,312	\$ 4,770,688
Construction Work in Progress	131,696	3,433
Plant Acquisition Adjustment	1,025,652	1,025,652
	\$ 6,074,660	\$ 5,799,773
Less: Accumulated Provision for Depreciation and Amortization	3,200,658	2,989,932
	\$ 2,874,002	\$ 2,809,841
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 270,615	\$ 278,018
CURRENT ASSETS		
Cash - General	\$ 19,124	\$ 18,908
Accounts Receivable (Less allowance for uncollectibles of \$40,641 in 2005 and \$29,177 in 2004)	129,710	66,977
Underbilled Consumer Fuel Cost	232,035	
Accounts Receivable - Graham County Electric Cooperative		178,723
Materials and Supplies	122,733	95,296
Other Current and Accrued Assets	31,149	38,287
Total Current Assets	\$ 534,751	\$ 398,191
DEFERRED CHARGES	\$ 60,900	\$ 66,602
	\$ 3,740,268	\$ 3,552,652

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 29,445	\$ 29,160
Accumulated Margins (Deficits)	124,813	(2,023)
	\$ 154,258	\$ 27,137
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 2,109,830	\$ 2,229,111
AEPCO Note Payable Less Current Maturities	89,834	111,834
Graham County Electric Cooperative Note Payable Less Current Maturities	131,100	164,544
USDA Rural Development Note Payable Less Current Maturities	501,629	509,939
	\$ 2,832,393	\$ 3,015,428
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 182,944	\$ 181,998
Accounts Payable - Other	103,853	105,646
Accounts Payable - Graham County Electric Coop	314,433	
Overbilled Consumers Fuel Cost		76,535
Customers' Deposits and Prepayments	75,160	71,205
Accrued Payroll	3,487	
Accrued Taxes	59,291	62,378
Accrued Interest	14,449	12,325
Total Current Liabilities	\$ 753,617	\$ 510,087
	\$ 3,740,268	\$ 3,552,652

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	September 30,	
	2005	2004
OPERATING REVENUES	\$ 3,575,368	\$ 3,294,237
OPERATING EXPENSES		
Purchased Gas	\$ 1,846,966	\$ 1,629,487
Power for Pumping	24,647	33,811
Operations	294,506	299,383
Maintenance	314,284	348,767
Consumer Accounts	235,543	247,596
Administrative and General	346,782	318,822
Depreciation and Amortization	210,726	207,495
Other Interest	36,889	30,437
Total Operating Expenses	\$ 3,310,343	\$ 3,115,798
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 265,025	\$ 178,439
Interest on Long-Term Debt	169,880	161,691
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 95,145	\$ 16,748
Capital Credits	14,840	12,417
NET OPERATING MARGINS	\$ 109,985	\$ 29,165
NONOPERATING MARGINS		
Interest	16,851	7,194
NET MARGINS	\$ 126,836	\$ 36,359
ACCUMULATED (DEFICITS) - BEGINNING OF YEAR	(2,023)	(38,382)
ACCUMULATED MARGINS (DEFICITS) - END OF YEAR	\$ 124,813	\$ (2,023)

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.
STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	September 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 126,836	\$ 36,359
Adjustments to Reconcile Net Margins to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	210,726	207,495
Capital Credits - Noncash	(14,840)	(12,417)
Overbilled Fuel Cost	(308,570)	(389,707)
Deferred Charges	5,702	10,239
Accounts Receivable	(62,733)	2,202
Inventories and Other Current Assets	(20,299)	12,494
Payables and Accrued Expenses	4,686	27,572
Net Payments to (from) - Graham County Electric Cooperative	493,166	(24,780)
Net Cash Provided by (Used in) Operating Activities	\$ 434,674	\$ (130,543)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (274,887)	\$ (131,175)
Investments in Associated Organizations	22,226	23,094
Net Cash Used in Investing Activities	\$ (252,661)	\$ (108,081)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from CFC	\$	\$ 400,000
Payments on Note Payable to AEPCO	(23,833)	(20,168)
Payments on Long-Term Debt to CFC	(119,280)	(105,248)
Payments on Long-Term Debt to GCEC	(31,065)	(28,856)
Payments on Long-Term Debt to USDA	(7,904)	(7,549)
Memberships	285	600
Net Cash Provided by (Used in) Financing Activities	\$ (181,797)	\$ 238,779
INCREASE IN CASH	\$ 216	\$ 155
CASH - BEGINNING OF YEAR	18,908	18,753
CASH - END OF YEAR	\$ 19,124	\$ 18,908
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on Long-Term Debt	\$ 169,880	\$ 177,338
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2005 and 2004, was estimated to be \$72,216 and \$46,755 in the gas department and \$39,979 and \$32,921 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2005 and 2004, the cooperative had overbilled (underbilled) of \$(232,035) and \$76,535, respectively.

Group Concentration of Credit Risk

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$75,160 and \$71,205 at September 30, 2005 and 2004, respectively.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Federal Income Tax Status

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

Allowance for Uncollectible Accounts

The cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectibility. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2005			September 30,
	Gas Department	Water Department	Total	2004 Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		475,536	475,536	457,892
Transmission		983,468	983,468	983,468
Distribution	2,794,186	270,612	3,064,798	2,943,485
General	103,832	192,025	295,857	288,190
Land and Land Rights	1,416	16,007	17,423	17,423
Total Plant in Service	\$ 2,941,956	\$ 1,975,356	\$ 4,917,312	\$ 4,770,688
Construction Work in Progress	50,374	81,322	131,696	3,433
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 3,407,814	\$ 2,666,846	\$ 6,074,660	\$ 5,799,773

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2005 and 2004, totaled \$210,726 and \$207,495, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a 25 year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2005, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,485	\$ 610,168
Less: Amortization		
Prior Periods	\$ 249,291	\$ 366,100
Current Year	16,619	24,407
	<u>\$ 265,910</u>	<u>\$ 390,507</u>
Unamortized Adjustment	<u>\$ 149,575</u>	<u>\$ 219,661</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2005</u>	<u>2004</u>
CFC		
Capital Term Certificates	\$ 175,093	\$ 181,168
Patronage Capital	88,395	90,502
Memberships	1,000	1,000
	<u>\$ 264,488</u>	<u>\$ 272,670</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 6,127	\$ 5,348
	<u>\$ 270,615</u>	<u>\$ 278,018</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2005	2004
Gas Department		
Rate Filing Costs	\$ 3,130	\$ 1,535
Unamortized Debt Expense	<u>30,618</u>	<u>34,485</u>
	\$ <u>33,748</u>	\$ <u>36,020</u>
Water Department		
Unamortized Debt Expense	\$ 27,152	\$ 30,582
	<u>27,152</u>	<u>30,582</u>
	\$ <u>60,900</u>	\$ <u>66,602</u>

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2005 and 2004, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2005	2004
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	19,780	19,495
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	<u>4,665</u>	<u>4,665</u>
	\$ <u>29,445</u>	\$ <u>29,160</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005 Nine Months	43,672	37,579	81,251
	<u>\$ (32,263)</u>	<u>\$ 239,111</u>	<u>\$ 206,848</u>
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ (32,263)</u>	<u>\$ 157,076</u>	<u>\$ 124,813</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2005 and 2004, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	2005	2004
Fixed - 7.10%	\$ 1,012,695	\$ 1,090,547
Variable (5.85% in 2005, 3.70% in 2004)	342,776	366,713
Fixed - 7.45%	483,510	492,999
Fixed - 4.30%	390,049	398,052
	<u>\$ 2,229,030</u>	<u>\$ 2,348,311</u>
Less: Current Maturities	<u>119,200</u>	<u>119,200</u>
	<u>\$ 2,109,830</u>	<u>\$ 2,229,111</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$64,900. As of September 30, 2005, annual maturities of long-term debt due CFC for the next five years is as follows:

2006	\$ 119,200
2007	126,900
2008	135,100
2009	143,900
2010	153,200

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2005	2004
5% Note Maturing March 2032	\$ 153,056	\$ 155,770
4.5% Note Maturing August 2035	265,855	269,989
4.5% Note Maturing July 2040	91,024	92,080
	<u>\$ 509,935</u>	<u>\$ 517,839</u>
Less: Current Maturities	<u>8,306</u>	<u>7,900</u>
	<u>\$ 501,629</u>	<u>\$ 509,939</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$2,652. As of September 30, 2005, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2006	\$ 8,306
2007	8,700
2008	9,100
2009	9,500
2010	10,000

10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2005, is \$164,544. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

2006	\$ 33,444
2007	36,000
2008	38,800
2009	41,700
2010	14,600

11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2005, is \$111,834. Annual maturities due to AEPCO for the next five years are as follows:

2006	\$ 22,000
2007	22,000
2008	22,000
2009	22,000
2010	22,000

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	2005	2004
Graham County Utilities, Inc.		
Accounts Receivable (Payable)	\$ (314,433)	\$ 178,723
Note Payable	<u>(164,544)</u>	<u>(195,609)</u>
Net Due to Affiliated Cooperative	<u>\$ (478,977)</u>	<u>\$ (16,886)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable (Payable)	\$ 314,433	\$ (178,723)
Note Receivable	<u>164,544</u>	<u>195,609</u>
Net Due from Affiliated Cooperative	<u>\$ 478,977</u>	<u>\$ 16,886</u>

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

[illegible]

**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 27, 2005

**GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT**

Schedule 1

**BALANCE SHEET
SEPTEMBER 30, 2005 AND 2004**

ASSETS

	September 30,	
	2005	2004
UTILITY PLANT		
Plant in Service	\$ 2,941,956	\$ 2,832,033
Construction Work in Progress	50,374	1,782
Plant Acquisition Adjustment	<u>415,484</u>	<u>415,484</u>
	\$ 3,407,814	\$ 3,249,299
Less: Accumulated Provision for Depreciation and Amortization	<u>1,745,656</u>	<u>1,639,430</u>
	<u>\$ 1,662,158</u>	<u>\$ 1,609,869</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ <u>147,282</u>	\$ <u>150,818</u>
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$31,111 in 2005 and \$21,324 in 2004)	\$ 107,442	\$ 55,376
Underbilled Consumers Fuel Cost	232,035	
Accounts Receivable - GCEC		2,535
Materials and Supplies	78,458	67,202
Other Current and Accrued Assets	<u>23,359</u>	<u>28,726</u>
Total Current Assets	\$ <u>441,294</u>	\$ <u>153,839</u>
Deferred Charges	\$ <u>33,748</u>	\$ <u>36,021</u>
	<u>\$ 2,284,482</u>	<u>\$ 1,950,547</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 26,945	\$ 26,660
Accumulated Deficits	<u>(32,263)</u>	<u>(112,194)</u>
	\$ <u>(5,318)</u>	\$ <u>(85,534)</u>
LONG-TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$ 131,100	\$ 164,544
CFC Mortgage Notes Less Current Maturities	<u>1,391,511</u>	<u>1,460,389</u>
	\$ <u>1,522,611</u>	\$ <u>1,624,933</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 103,344	\$ 100,965
Accounts Payable - Other	82,796	85,897
Accounts Payable - Graham County Electric Cooperative	314,398	
Accounts Payable - Water Department	146,490	30,473
Overbilled Consumers Fuel Cost		76,535
Accrued Taxes	38,682	43,692
Customers' Deposits and Prepayments	66,480	63,370
Accrued Payroll	2,878	
Accrued Interest	<u>12,121</u>	<u>10,216</u>
Total Current Liabilities	\$ <u>767,189</u>	\$ <u>411,148</u>
	<u>\$ 2,284,482</u>	<u>\$ 1,950,547</u>

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	September 30,		Increase (Decrease)
	2005	2004	
OPERATING REVENUES			
Residential	\$ 2,047,559	\$ 1,785,736	\$ 261,823
Irrigation	13,332	24,286	(10,954)
Commercial and Industrial	629,413	513,134	116,279
Fuel Cost Overbilled	19,700	22,230	(2,530)
Other Operating Revenues	300,362	391,697	(91,335)
Total Operating Revenues	<u>\$ 3,010,366</u>	<u>\$ 2,737,083</u>	<u>\$ 273,283</u>
OPERATING EXPENSES			
Purchased Gas	\$ 1,846,966	\$ 1,629,487	\$ 217,479
Operations	229,205	233,323	(4,118)
Maintenance	182,330	196,831	(14,501)
Customer Accounts	194,397	204,843	(10,446)
Administrative and General	261,449	236,883	24,566
Depreciation and Amortization	106,226	103,638	2,588
Other Interest	33,002	26,536	6,466
Total Operating Expenses	<u>\$ 2,853,575</u>	<u>\$ 2,631,541</u>	<u>\$ 222,034</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 156,791</u>	<u>\$ 105,542</u>	<u>\$ 51,249</u>
FIXED CHARGES			
Interest on Long-Term Debt	<u>92,640</u>	<u>84,185</u>	<u>8,455</u>
OPERATING MARGINS - After Fixed Charges	<u>\$ 64,151</u>	<u>\$ 21,357</u>	<u>\$ 42,794</u>
Capital Credits	<u>7,453</u>	<u>6,581</u>	<u>872</u>
NET OPERATING MARGINS	<u>\$ 71,604</u>	<u>\$ 27,938</u>	<u>\$ 43,666</u>
NONOPERATING MARGINS			
Interest	<u>8,327</u>	<u>3,094</u>	<u>5,233</u>
NET MARGINS	<u>\$ 79,931</u>	<u>\$ 31,032</u>	<u>\$ 48,899</u>
ACCUMULATED DEFICITS - BEGINNING OF YEAR	<u>(112,194)</u>	<u>(143,226)</u>	
ACCUMULATED DEFICITS - END OF YEAR	<u>\$ (32,263)</u>	<u>\$ (112,194)</u>	

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	September 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 79,931	\$ 31,032
Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	106,226	103,638
Capital Credits - Noncash	(7,453)	(6,581)
Deferred Charges	2,273	6,049
Overbilled Fuel Cost - Net	(308,570)	(389,707)
Accounts Receivable	(52,066)	(428)
Inventories and Other Current Assets	(5,889)	4,652
Payables and Accrued Expenses	(218)	21,946
Net Payments to - Water Department	116,017	23,190
Net Payments to - Graham County Electric Cooperative	316,933	(15,304)
Net Cash Provided by (Used in) Operating Activities	\$ 247,184	\$ (221,513)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (158,515)	\$ (103,611)
Investments in Associated Organizations	10,989	11,839
Net Cash Used in Investing Activities	\$ (147,526)	\$ (91,772)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from CFC	\$	\$ 400,000
Payments on Long-Term Debt - CFC	(68,878)	(58,459)
Payments on Long-Term Debt - Graham County Electric Cooperative	(31,065)	(28,856)
Memberships	285	600
Net Cash Provided by (Used in) Financing Activities	\$ (99,658)	\$ 313,285
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 92,640	\$ 99,830
Federal Income Tax	\$ 0	\$ 0

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 4

BALANCE SHEET
SEPTEMBER 30, 2005 AND 2004

ASSETS

	September 30,	
	2005	2004
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,975,356	\$ 1,938,655
Construction Work in Progress	81,322	1,651
Plant Acquisition Adjustment	610,168	610,168
	\$ 2,666,846	\$ 2,550,474
Less: Accumulated Provision for Depreciation and Amortization	1,455,002	1,350,502
	\$ 1,211,844	\$ 1,199,972
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 123,333	\$ 127,200
CURRENT ASSETS		
Cash - General	\$ 19,124	\$ 18,908
Accounts Receivable - Customers (Less allowance for uncollectibles of \$9,530 in 2005 and \$7,853 in 2004)	22,268	11,601
Accounts Receivable - Gas Department	146,490	30,473
Accounts Receivable - Graham County Electric Cooperative		176,188
Materials and Supplies	44,275	28,094
Other Current and Accrued Assets	7,790	9,561
Total Current Assets	\$ 239,947	\$ 274,825
DEFERRED CHARGES	\$ 27,152	\$ 30,581
	\$ 1,602,276	\$ 1,632,578

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	157,076	110,171
	\$ 159,576	\$ 112,671
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 718,319	\$ 768,722
AEPCO Notes Payable Less Current Maturities	89,834	111,834
USDA Rural Development Notes Less Current Maturities	501,629	509,939
	\$ 1,309,782	\$ 1,390,495
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 79,600	\$ 81,033
Accounts Payable - Other	21,057	19,749
Accounts Payable - Related Parties	35	
Accrued Taxes	20,609	18,686
Customers' Deposits and Prepayments	8,680	7,835
Accrued Payroll	609	
Accrued Interest	2,328	2,109
Total Current Liabilities	\$ 132,918	\$ 129,412
	\$ 1,602,276	\$ 1,632,578

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	September 30,		Increase (Decrease)
	2005	2004	
OPERATING REVENUES			
Residential	\$ 484,743	\$ 474,991	\$ 9,752
Commercial and Industrial	48,192	50,980	(2,788)
Sales for Resale	29,907	29,053	854
Other Operating Revenues	2,160	2,130	30
Total Operating Revenues	<u>\$ 565,002</u>	<u>\$ 557,154</u>	<u>\$ 7,848</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 24,647	\$ 33,811	\$ (9,164)
Operations	65,301	66,060	(759)
Maintenance	131,954	151,936	(19,982)
Customer Accounts	41,146	42,753	(1,607)
Administrative and General	85,333	81,939	3,394
Depreciation and Amortization	104,500	103,856	644
Other Interest	3,887	3,902	(15)
Total Operating Expenses	<u>\$ 456,768</u>	<u>\$ 484,257</u>	<u>\$ (27,489)</u>
OPERATING MARGINS - Before Fixed Charges	\$ 108,234	\$ 72,897	\$ 35,337
FIXED CHARGES			
Interest on Long-Term Debt	<u>77,240</u>	<u>77,506</u>	<u>(266)</u>
OPERATING MARGINS (DEFICIT) - After Fixed Charges	\$ 30,994	\$ (4,609)	\$ 35,603
Capital Credits	<u>7,387</u>	<u>5,836</u>	<u>1,551</u>
NET OPERATING MARGINS (DEFICIT)	\$ 38,381	\$ 1,227	\$ 37,154
NONOPERATING MARGINS			
Interest	<u>8,524</u>	<u>4,100</u>	<u>4,424</u>
NET MARGINS	\$ 46,905	\$ 5,327	<u>\$ 41,578</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>110,171</u>	<u>104,844</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 157,076</u>	<u>\$ 110,171</u>	

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	September 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 46,905	\$ 5,327
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	104,500	103,857
Capital Credits - Noncash	(7,387)	(5,836)
Deferred Charges	3,429	4,190
Accounts Receivable	(10,667)	2,630
Inventories and Other Current Assets	(14,410)	7,842
Payables and Accrued Expenses	4,904	5,627
Net Advances from/(to) - Gas Department	(116,017)	(23,190)
Net Payments from/(to) - Graham County Electric Cooperative	176,233	(9,476)
Net Cash Provided by Operating Activities	\$ 187,490	\$ 90,971
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (116,372)	\$ (27,564)
Investments in Associated Organizations	11,237	11,254
Net Cash Used in Investing Activities	\$ (105,135)	\$ (16,310)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable to AEPCO	\$ (23,833)	\$ (20,168)
Payments on Long-Term Debt to CFC	(50,402)	(46,789)
Payments on Long-Term Debt to USDA	(7,904)	(7,549)
Net Cash Used in Financing Activities	\$ (82,139)	\$ (74,506)
INCREASE IN CASH	\$ 216	\$ 155
CASH - BEGINNING OF YEAR	18,908	18,753
CASH - END OF YEAR	\$ 19,124	\$ 18,908
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 77,240	\$ 77,508
Federal Income Tax	\$ 0	\$ 0

COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

1623 10TH STREET

LUBBOCK, TEXAS 79401-2685

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING
AUDITS OF CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2005, and have issued our report thereon dated October 27, 2005.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

October 27, 2005

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

1623 10TH STREET

LUBBOCK, TEXAS 79401-2685

**Board of Directors
Graham County Utilities, Inc.
Pima, Arizona**

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Balinger, Segars, Gilbert & Mass LLP

Certified Public Accountants

October 27, 2005

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**GRAHAM COUNTY UTILITIES, INC.
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditors' Report		1
Financial Statements		
Balance Sheet	Exhibit A	2
Statement of Income and Accumulated Margins (Deficits)	Exhibit B	3
Statement of Cash Flows	Exhibit C	4
Notes to Financial Statements		5
Accompanying Information		
Independent Auditors' Report on Accompanying Information		14
Individual Department - Financial Statements		
Gas Department		
Balance Sheet	Schedule 1	15
Statement of Income and Accumulated Margins (Deficits)	Schedule 2	16
Statement of Cash Flows	Schedule 3	17
Water Department		
Balance Sheet	Schedule 4	18
Statement of Income and Accumulated Margins	Schedule 5	19
Statement of Cash Flows	Schedule 6	20
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		21
Independent Auditors' Report: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		22

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

INDEPENDENT AUDITORS' REPORT

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2004 and 2003, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2004, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

October 28, 2004

-2-
GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

ASSETS

	September 30,	
	2004	2003
UTILITY PLANT		
Plant in Service	\$ 4,770,688	\$ 4,650,377
Construction Work in Progress	3,433	(7,432)
Plant Acquisition Adjustment	1,025,652	1,025,652
	<u>\$ 5,799,773</u>	<u>\$ 5,668,597</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>2,989,932</u>	<u>2,782,437</u>
	<u>\$ 2,809,841</u>	<u>\$ 2,886,160</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 278,018	\$ 288,694
CURRENT ASSETS		
Cash - General	\$ 18,908	\$ 18,753
Accounts Receivable (Less allowance for uncollectibles of \$29,177 in 2004 and \$19,819 in 2003)	66,977	69,179
Accounts Receivable - Graham County Electric Cooperative	178,723	153,943
Materials and Supplies	95,296	95,844
Other Current and Accrued Assets	38,287	50,233
Total Current Assets	<u>\$ 398,191</u>	<u>\$ 387,952</u>
DEFERRED CHARGES	<u>\$ 66,602</u>	<u>\$ 76,841</u>
	<u>\$ 3,552,652</u>	<u>\$ 3,639,647</u>
EQUITIES AND LIABILITIES		
MEMBERS' EQUITY		
Memberships	\$ 29,160	\$ 28,560
Accumulated Deficits	(2,023)	(38,382)
	<u>\$ 27,137</u>	<u>\$ (9,822)</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 2,229,111	\$ 1,952,458
AEPCO Note Payable Less Current Maturities	111,834	133,833
Graham County Electric Cooperative Note Payable Less Current Maturities	164,544	195,565
USDA Rural Development Note Payable Less Current Maturities	509,939	517,889
	<u>\$ 3,015,428</u>	<u>\$ 2,799,745</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 181,998	\$ 159,500
Accounts Payable - Other	105,646	77,021
Overbilled Consumers Fuel Cost	76,535	466,242
Customers' Deposits and Prepayments	71,205	71,220
Accrued Taxes	62,378	64,080
Accrued Interest	12,325	11,661
Total Current Liabilities	<u>\$ 510,087</u>	<u>\$ 849,724</u>
	<u>\$ 3,552,652</u>	<u>\$ 3,639,647</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	September 30,	
	2004	2003
OPERATING REVENUES	\$ 3,294,237	\$ 2,703,891
OPERATING EXPENSES		
Purchased Gas	\$ 1,629,487	\$ 1,064,964
Power for Pumping	33,811	15,021
Operations	299,383	294,608
Maintenance	348,767	380,567
Consumer Accounts	247,596	239,862
Administrative and General	318,822	266,684
Depreciation and Amortization	207,494	203,926
Other Interest	30,438	37,405
Total Operating Expenses	\$ 3,115,798	\$ 2,503,037
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 178,439	\$ 200,854
Interest on Long-Term Debt	161,691	161,469
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 16,748	\$ 39,385
Capital Credits	12,417	14,078
NET OPERATING MARGINS	\$ 29,165	\$ 53,463
NONOPERATING MARGINS		
Interest	7,194	5,655
NET MARGINS	\$ 36,359	\$ 59,118
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(38,382)	(97,500)
ACCUMULATED DEFICITS - END OF YEAR	\$ (2,023)	\$ (38,382)

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	September 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 36,359	\$ 59,118
Adjustments to Reconcile Net Margins to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	207,495	204,229
Capital Credits - Noncash	(12,417)	(14,078)
Overbilled Fuel Cost	(389,707)	390,657
Deferred Charges	10,239	7,827
Accounts Receivable	2,202	34,341
Inventories and Other Current Assets	12,494	(14,144)
Payables and Accrued Expenses	27,572	9,564
Net Payments to/(from) - Graham County Electric Cooperative	(24,780)	(372,050)
Net Cash Provided by (Used in) Operating Activities	\$ (130,543)	\$ 305,464
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (131,175)	\$ (177,410)
Salvage Value of Plant Retired		4,070
Investments in Associated Organizations	23,094	19,303
Net Cash Used in Investing Activities	\$ (108,081)	\$ (154,037)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from CFC	\$ 400,000	\$
Payments on Note Payable to AEPCO	(20,168)	(22,000)
Payments on Long-Term Debt to CFC	(105,248)	(95,899)
Payments on Long-Term Debt to GCEC	(28,856)	(26,804)
Payments on Long-Term Debt to USDA	(7,549)	(7,206)
Memberships	600	570
Net Cash Provided by (Used in) Financing Activities	\$ 238,779	\$ (151,339)
INCREASE IN CASH	\$ 155	\$ 88
CASH - BEGINNING OF YEAR	18,753	18,665
CASH - END OF YEAR	\$ 18,908	\$ 18,753
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on Long-Term Debt	\$ 177,338	\$ 179,166
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2004 and 2003, was estimated to be \$46,755 and \$46,579 in the gas department and \$32,921 and \$35,636 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2004 and 2003, the cooperative had overbillings of \$76,535 and \$466,242, respectively.

Group Concentration of Credit Risk

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of 6%. Deposits on hand totaled \$71,205 and \$71,220 at September 30, 2004 and 2003, respectively.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Federal Income Tax Status

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

Allowance for Uncollectible Accounts

The cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectibility. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

-7-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2004			September 30,
	Gas	Water	Total	2003
	Department	Department		Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		457,892	457,892	457,892
Transmission		983,468	983,468	983,468
Distribution	2,687,612	255,873	2,943,485	2,835,348
General	100,484	187,706	288,190	276,016
Land and Land Rights	1,416	16,007	17,423	17,423
Total Plant in Service	\$ 2,832,034	\$ 1,938,654	\$ 4,770,688	\$ 4,650,377
Construction Work in Progress	1,782	1,651	3,433	(7,432)
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 3,249,300	\$ 2,550,473	\$ 5,799,773	\$ 5,668,597

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas	Water
	Department	Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2004 and 2003, totaled \$166,469 and \$162,900, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a 25 year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2004, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 232,671	\$ 341,694
Current Year	16,619	24,407
	<u>\$ 249,290</u>	<u>\$ 366,101</u>
Unamortized Adjustment	<u>\$ 166,194</u>	<u>\$ 244,067</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
CFC		
Capital Term Certificates	\$ 181,168	\$ 189,245
Patronage Capital	90,502	93,101
Memberships	1,000	1,000
	<u>\$ 272,670</u>	<u>\$ 283,346</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	<u>\$ 5,348</u>	<u>\$ 5,348</u>
	<u>\$ 278,018</u>	<u>\$ 288,694</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2004	2003
Gas Department		
Rate Filing Costs	\$ 1,535	\$ 2,146
Clearing Accounts		1,571
Unamortized Debt Expense	34,485	38,353
	<u>\$ 36,020</u>	<u>\$ 42,070</u>
Water Department		
Unamortized Debt Expense	\$ 30,582	\$ 34,011
Clearing Accounts		760
	<u>\$ 30,582</u>	<u>\$ 34,771</u>
	<u>\$ 66,602</u>	<u>\$ 76,841</u>

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2004 and 2003, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2004	2003
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	19,495	18,895
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 29,160</u>	<u>\$ 28,560</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
Nine months of 2004	26,500	(1,559)	24,941
	\$ (112,194)	\$ 192,206	\$ 80,012
Patronage Capital Retired		(82,035)	(82,035)
	\$ (112,194)	\$ 110,171	\$ (2,023)

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2004 and 2003, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

-11-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	<u>2004</u>	<u>2003</u>
Fixed - 7.10%	\$ 1,090,547	\$ 1,163,108
Variable (3.70% in 2004, 2.95% in 2003)	366,713	388,638
Fixed - 7.45%	492,999	501,812
Fixed - 4.30%	<u>398,052</u>	
	\$ 2,348,311	\$ 2,053,558
Less: Current Maturities	<u>119,200</u>	<u>101,100</u>
	<u>\$ 2,229,111</u>	<u>\$ 1,952,458</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$64,900. As of September 30, 2004, annual maturities of long-term debt due CFC for the next five years is as follows:

2005	\$ 119,200
2006	126,900
2007	135,100
2008	143,900
2009	153,200

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	<u>2004</u>	<u>2003</u>
5% Note Maturing March 2032	\$ 155,770	\$ 158,350
4.5% Note Maturing August 2035	269,989	273,943
4.5% Note Maturing July 2040	<u>92,080</u>	<u>93,096</u>
	\$ 517,839	\$ 525,389
Less: Current Maturities	<u>7,900</u>	<u>7,500</u>
	<u>\$ 509,939</u>	<u>\$ 517,889</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$2,652. As of September 30, 2004, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2005	\$ 7,900
2006	8,300
2007	8,700
2008	9,100
2009	9,500

10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2004, is \$195,609. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

2005	\$ 31,065
2006	33,444
2007	36,004
2008	38,761
2009	41,728

11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2004, is \$135,667. Annual maturities due to AEPCO for the next five years are as follows:

2005	\$ 23,833
2006	22,000
2007	22,000
2008	22,000
2009	22,000

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

-13-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	<u>2004</u>	<u>2003</u>
Graham County Utilities, Inc.		
Accounts Receivable (Payable)	\$ 178,723	\$ 153,943
Note Payable	<u>(195,609)</u>	<u>(224,465)</u>
Net Due to Affiliated Cooperative	\$ <u>(16,886)</u>	\$ <u>(70,522)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable (Payable)	\$ (178,723)	\$ (153,943)
Note Receivable	<u>195,609</u>	<u>224,465</u>
Net Due from Affiliated Cooperative	\$ <u>16,886</u>	\$ <u>70,522</u>

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

ACCOMPANYING INFORMATION

**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 28, 2004

-15-
GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 1

BALANCE SHEET
SEPTEMBER 30, 2004 AND 2003

ASSETS

	September 30,	
	2004	2003
UTILITY PLANT		
Plant in Service	\$ 2,832,033	\$ 2,732,344
Construction Work in Progress	1,782	(2,140)
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 3,249,299</u>	<u>\$ 3,145,688</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>1,639,430</u>	<u>1,535,791</u>
	<u>\$ 1,609,869</u>	<u>\$ 1,609,897</u>
 OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 150,818	\$ 156,076
 CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$21,324 in 2004 and \$13,802 in 2003)	\$ 55,376	\$ 54,948
Accounts Receivable - GCEC	2,535	
Materials and Supplies	67,202	62,905
Other Current and Accrued Assets	28,726	37,675
Total Current Assets	<u>\$ 153,839</u>	<u>\$ 155,528</u>
 Deferred Charges	\$ 36,021	\$ 42,070
	<u>\$ 1,950,547</u>	<u>\$ 1,963,571</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 26,660	\$ 26,060
Accumulated Deficits	(112,194)	(143,226)
	<u>\$ (85,534)</u>	<u>\$ (117,166)</u>
 LONG -TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$ 164,544	\$ 195,565
CFC Mortgage Notes Less Current Maturities	1,460,389	1,133,448
	<u>\$ 1,624,933</u>	<u>\$ 1,329,013</u>
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 100,965	\$ 84,200
Accounts Payable - Other	85,897	66,014
Accounts Payable - Graham County Electric Cooperative		12,769
Accounts Payable - Water Department	30,473	7,283
Overbilled Consumers Fuel Cost	76,535	466,242
Accrued Taxes	43,692	43,495
Customers' Deposits and Prepayments	63,370	62,145
Accrued Interest	10,216	9,576
Total Current Liabilities	<u>\$ 411,148</u>	<u>\$ 751,724</u>
	<u>\$ 1,950,547</u>	<u>\$ 1,963,571</u>

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	September 30,		Increase (Decrease)
	2004	2003	
OPERATING REVENUES			
Residential	\$ 1,785,736	\$ 1,935,383	\$ (149,647)
Irrigation	24,286	22,279	2,007
Commercial and Industrial	513,134	555,590	(42,456)
Fuel Cost Overbilled	22,230	(387,328)	409,558
Other Operating Revenues	391,697	23,870	367,827
Total Operating Revenues	<u>\$ 2,737,083</u>	<u>\$ 2,149,794</u>	<u>\$ 587,289</u>
OPERATING EXPENSES			
Purchased Gas	\$ 1,629,487	\$ 1,064,964	\$ 564,523
Operations	233,323	236,280	(2,957)
Maintenance	196,831	235,845	(39,014)
Customer Accounts	204,843	200,011	4,832
Administrative and General	236,883	196,487	40,396
Depreciation and Amortization	103,638	101,411	2,227
Other Interest	26,536	33,368	(6,832)
Total Operating Expenses	<u>\$ 2,631,541</u>	<u>\$ 2,068,366</u>	<u>\$ 563,175</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 105,542</u>	<u>\$ 81,428</u>	<u>\$ 24,114</u>
FIXED CHARGES			
Interest on Long-Term Debt	<u>84,185</u>	<u>80,085</u>	<u>4,100</u>
OPERATING MARGINS - After Fixed Charges	<u>\$ 21,357</u>	<u>\$ 1,343</u>	<u>\$ 20,014</u>
Capital Credits	<u>6,581</u>	<u>6,709</u>	<u>(128)</u>
NET OPERATING MARGINS	<u>\$ 27,938</u>	<u>\$ 8,052</u>	<u>\$ 19,886</u>
NONOPERATING MARGINS			
Interest	<u>3,094</u>	<u>734</u>	<u>2,360</u>
NET MARGINS	<u>\$ 31,032</u>	<u>\$ 8,786</u>	<u>\$ 22,246</u>
ACCUMULATED DEFICITS - BEGINNING OF YEAR	<u>(143,226)</u>	<u>(152,012)</u>	
ACCUMULATED DEFICITS - END OF YEAR	<u>\$ (112,194)</u>	<u>\$ (143,226)</u>	

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	September 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 31,032	\$ 8,786
Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	103,638	101,714
Capital Credits - Noncash	(6,581)	(6,709)
Deferred Charges	6,049	5,157
Overbilled Fuel Cost - Net	(389,707)	390,657
Accounts Receivable	(428)	30,675
Inventories and Other Current Assets	4,652	(9,372)
Payables and Accrued Expenses	21,946	7,131
Net Payments to - Water Department	23,190	(114,094)
Net Payments to - Graham County Electric Cooperative	(15,304)	(206,275)
Net Cash Provided by (Used in) Operating Activities	\$ (221,513)	\$ 207,670
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (103,611)	\$ (142,489)
Salvage Value of Plant Retired		4,070
Investments in Associated Organizations	11,839	9,447
Net Cash Used in Investing Activities	\$ (91,772)	\$ (128,972)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from CFC	\$ 400,000	\$
Payments on Long-Term Debt - CFC	(58,459)	(52,464)
Payments on Long-Term Debt - Graham County Electric Cooperative	(28,856)	(26,804)
Memberships	600	570
Net Cash Provided by (Used in) Financing Activities	\$ 313,285	\$ (78,698)
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 99,830	\$ 97,782
Federal Income Tax	\$ 0	\$ 0

-18-
GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 4

BALANCE SHEET
SEPTEMBER 30, 2004 AND 2003

ASSETS

	September 30,	
	2004	2003
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,938,655	\$ 1,918,033
Construction Work in Progress	1,651	(5,292)
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 2,550,474</u>	<u>\$ 2,522,909</u>
Less: Accumulated Provision for Depreciation and Amortization	1,350,502	1,246,646
	<u>\$ 1,199,972</u>	<u>\$ 1,276,263</u>
 OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 127,200	\$ 132,618
 CURRENT ASSETS		
Cash - General	\$ 18,908	\$ 18,753
Accounts Receivable - Customers (Less allowance for uncollectibles of \$7,853 in 2004 and \$6,017 in 2003)	11,601	14,231
Accounts Receivable - Gas Department	30,473	7,283
Accounts Receivable - Graham County Electric Cooperative	176,188	166,712
Materials and Supplies	28,094	32,939
Other Current and Accrued Assets	9,561	12,558
Total Current Assets	<u>\$ 274,825</u>	<u>\$ 252,476</u>
 DEFERRED CHARGES	<u>\$ 30,581</u>	<u>\$ 34,771</u>
	<u>\$ 1,632,578</u>	<u>\$ 1,696,128</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	110,171	104,844
	<u>\$ 112,671</u>	<u>\$ 107,344</u>
 LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 768,722	\$ 819,010
AEPCO Notes Payable Less Current Maturities	111,834	133,833
USDA Rural Development Notes Less Current Maturities	509,939	517,889
	<u>\$ 1,390,495</u>	<u>\$ 1,470,732</u>
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 81,033	\$ 75,300
Accounts Payable - Other	19,749	11,007
Accrued Taxes	18,686	20,585
Customers' Deposits and Prepayments	7,835	9,075
Accrued Interest	2,109	2,085
Total Current Liabilities	<u>\$ 129,412</u>	<u>\$ 118,052</u>
	<u>\$ 1,632,578</u>	<u>\$ 1,696,128</u>

**GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT**

Schedule 5

**STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	September 30,		Increase (Decrease)
	2004	2003	
OPERATING REVENUES			
Residential	\$ 474,991	\$ 468,745	\$ 6,246
Commercial and Industrial	50,980	54,995	(4,015)
Sales for Resale	29,053	28,077	976
Other Operating Revenues	<u>2,130</u>	<u>2,280</u>	<u>(150)</u>
Total Operating Revenues	\$ <u>557,154</u>	\$ <u>554,097</u>	\$ <u>3,057</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 33,811	\$ 15,021	\$ 18,790
Operations	66,060	58,328	7,732
Maintenance	151,936	144,722	7,214
Customer Accounts	42,753	39,851	2,902
Administrative and General	81,939	70,197	11,742
Depreciation and Amortization	103,856	102,515	1,341
Other Interest	<u>3,902</u>	<u>4,037</u>	<u>(135)</u>
Total Operating Expenses	\$ <u>484,257</u>	\$ <u>434,671</u>	\$ <u>49,586</u>
OPERATING MARGINS - Before Fixed Charges	\$ 72,897	\$ 119,426	\$ (46,529)
FIXED CHARGES			
Interest on Long-Term Debt	<u>77,506</u>	<u>81,384</u>	<u>(3,878)</u>
OPERATING MARGINS (DEFICIT) - After Fixed Charges	\$ (4,609)	\$ 38,042	\$ (42,651)
Capital Credits	<u>5,836</u>	<u>7,369</u>	<u>(1,533)</u>
NET OPERATING MARGINS (DEFICIT)	\$ 1,227	\$ 45,411	\$ (44,184)
NONOPERATING MARGINS			
Interest	<u>4,100</u>	<u>4,921</u>	<u>(821)</u>
NET MARGINS	\$ 5,327	\$ 50,332	\$ <u>(45,005)</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>104,844</u>	<u>54,512</u>	
ACCUMULATED MARGINS - END OF YEAR	\$ <u>110,171</u>	\$ <u>104,844</u>	

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	September 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 5,327	\$ 50,332
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	103,857	102,515
Capital Credits - Noncash	(5,836)	(7,369)
Deferred Charges	4,190	2,670
Accounts Receivable	2,630	3,666
Inventories and Other Current Assets	7,842	(4,772)
Payables and Accrued Expenses	5,627	2,433
Net Advances from/(to) - Gas Department	(23,190)	114,094
Net Payments from/(to) - Graham County Electric Cooperative	(9,476)	(165,775)
Net Cash Provided by Operating Activities	\$ 90,971	\$ 97,794
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (27,564)	\$ (34,921)
Investments in Associated Organizations	11,254	9,856
Net Cash Used in Investing Activities	\$ (16,310)	\$ (25,065)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable to AEPCO	\$ (20,168)	\$ (22,000)
Payments on Long-Term Debt to CFC	(46,789)	(43,435)
Payments on Long-Term Debt to USDA	(7,549)	(7,206)
Net Cash Used in Financing Activities	\$ (74,506)	\$ (72,641)
INCREASE IN CASH	\$ 155	\$ 88
CASH - BEGINNING OF YEAR	18,753	18,665
CASH - END OF YEAR	\$ 18,908	\$ 18,753
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 77,508	\$ 81,384
Federal Income Tax	\$ 0	\$ 0

COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING
AUDITS OF CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2004, and have issued our report thereon dated October 28, 2004.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 28, 2004

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2004, and have issued our report thereon dated October 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 28, 2004

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.
Pima, Arizona

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditors' Report		1
Financial Statements		
Balance Sheet	Exhibit A	2
Statement of Income and Accumulated Margins (Deficits)	Exhibit B	3
Statement of Cash Flows	Exhibit C	4
Notes to Financial Statements		5
Accompanying Information		
Independent Auditors' Report on Accompanying Information		14
Individual Department - Financial Statements		
Gas Department		
Balance Sheet	Schedule 1	15
Statement of Income and Accumulated Margins (Deficits)	Schedule 2	16
Statement of Cash Flows	Schedule 3	17
Water Department		
Balance Sheet	Schedule 4	18
Statement of Income and Accumulated Margins	Schedule 5	19
Statement of Cash Flows	Schedule 6	20
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		21
Independent Auditors' Report: Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		22

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

INDEPENDENT AUDITORS' REPORT

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2003 and 2002, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2003, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and its compliance with certain provision of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

October 22, 2003

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

ASSETS

	September 30,	
	2003	2002
UTILITY PLANT		
Plant in Service	\$ 4,650,377	\$ 4,511,550
Construction Work in Progress	(7,432)	24,487
Plant Acquisition Adjustment	1,025,652	1,025,652
	\$ 5,668,597	\$ 5,561,689
Less: Accumulated Provision for Depreciation and Amortization	2,782,437	2,644,640
	\$ 2,886,160	\$ 2,917,049
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 288,694	\$ 293,919
CURRENT ASSETS		
Cash - General	\$ 18,753	\$ 18,665
Accounts Receivable (Less allowance for uncollectibles of \$19,819 in 2003 and \$9,333 in 2002)	69,179	103,520
Accounts Receivable - Graham County Electric Cooperative	153,943	
Materials and Supplies	95,844	88,963
Other Current and Accrued Assets	50,233	42,970
Total Current Assets	\$ 387,952	\$ 254,118
DEFERRED CHARGES	\$ 76,841	\$ 84,668
	\$ 3,639,647	\$ 3,549,754

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,560	\$ 27,990
Accumulated Deficits	(38,382)	(97,500)
	\$ (9,822)	\$ (69,510)
LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,952,458	\$ 2,055,657
AEPKO Note Payable Less Current Maturities	133,833	155,833
Graham County Electric Cooperative Note Payable		
Less Current Maturities	195,565	224,469
USDA Rural Development Note Payable Less Current Maturities	517,889	525,395
	\$ 2,799,745	\$ 2,961,354
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 159,500	\$ 149,800
Accounts Payable - Graham County Electric Cooperative		218,107
Accounts Payable - Other	77,021	73,741
Overbilled Consumers Fuel Cost	466,242	75,585
Customers' Deposits and Prepayments	71,220	66,900
Accrued Taxes	64,080	63,925
Accrued Interest	11,661	9,852
Total Current Liabilities	\$ 849,724	\$ 657,910
	\$ 3,639,647	\$ 3,549,754

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	September 30,	
	2003	2002
OPERATING REVENUES	\$ 2,703,891	\$ 3,216,329
OPERATING EXPENSES		
Purchased Gas	\$ 1,064,964	\$ 1,580,613
Power for Pumping	15,021	21,143
Operations	294,608	284,294
Maintenance	380,567	404,744
Consumer Accounts	239,862	218,284
Administrative and General	266,684	270,751
Depreciation and Amortization	203,926	195,418
Other Interest	37,405	46,854
Total Operating Expenses	\$ 2,503,037	\$ 3,022,101
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 200,854	\$ 194,228
Interest on Long-Term Debt	161,469	172,405
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 39,385	\$ 21,823
Capital Credits	14,078	17,822
NET OPERATING MARGINS	\$ 53,463	\$ 39,645
NONOPERATING MARGINS		
Interest	5,655	6,904
NET MARGINS	\$ 59,118	\$ 46,549
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(97,500)	(144,049)
ACCUMULATED DEFICITS - END OF YEAR	\$ (38,382)	\$ (97,500)

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	September 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 59,118	\$ 46,549
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	204,229	196,024
Capital Credits - Noncash	(14,078)	(17,822)
Overbilled Fuel Cost	390,657	51,579
Deferred Charges	7,827	11,542
Accounts Receivable	34,341	8,668
Inventories and Other Current Assets	(14,144)	9,479
Payables and Accrued Expenses	9,564	21,750
Net Payments to - Graham County Electric Cooperative	(372,050)	(48,750)
Net Cash Provided by Operating Activities	\$ 305,464	\$ 279,019
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (177,410)	\$ (157,962)
Salvage Value of Plant Retired	4,070	
Investments in Associated Organizations	19,303	21,277
Net Cash Used in Investing Activities	\$ (154,037)	\$ (136,685)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable to AEPCO	\$ (22,000)	\$ (22,000)
Payments on Long-Term Debt to CFC	(95,899)	(89,032)
Payments on Long-Term Debt to GCEC	(26,804)	(24,897)
Payments on Long-Term Debt to USDA	(7,206)	(6,883)
Memberships	570	760
Net Cash Used in Financing Activities	\$ (151,339)	\$ (142,052)
INCREASE IN CASH	\$ 88	\$ 282
CASH - BEGINNING OF YEAR	18,665	18,383
CASH - END OF YEAR	\$ 18,753	\$ 18,665
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on Long-Term Debt	\$ 179,166	\$ 192,009
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2003 and 2002, was estimated to be \$46,579 and \$53,469 in the gas department and \$35,636 and \$30,996 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2003 and 2002, the cooperative had overbillings of \$466,242 and \$75,585, respectively.

Group Concentration of Credit Risk

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of 6%. Deposits on hand totaled \$71,220 and \$66,900 at September 30, 2003 and 2002, respectively.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Federal Income Tax Status

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

Allowance for Uncollectible Accounts

The cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectibility. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2003		Total	September 30,
	Gas	Water		2002
	Department	Department		Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		457,892	457,892	447,948
Transmission		983,468	983,468	983,468
Distribution	2,592,782	242,566	2,835,348	2,717,310
General	95,624	180,392	276,016	265,171
Land and Land Rights	1,416	16,007	17,423	17,423
Total Plant in Service	\$ 2,732,344	\$ 1,918,033	\$ 4,650,377	\$ 4,511,550
Construction Work in Progress	(2,140)	(5,292)	(7,432)	24,487
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 3,145,688	\$ 2,522,909	\$ 5,668,597	\$ 5,561,689

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2003 and 2002, totaled \$162,900 and \$154,392, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2003, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 216,052	\$ 317,287
Current Year	16,619	24,407
	<u>\$ 232,671</u>	<u>\$ 341,694</u>
Unamortized Adjustment	<u>\$ 182,813</u>	<u>\$ 268,474</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
CFC		
Capital Term Certificates	\$ 189,245	\$ 193,622
Patronage Capital	93,101	95,739
Memberships	1,000	1,000
	<u>\$ 283,346</u>	<u>\$ 290,361</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 5,348	\$ 3,558
	<u>\$ 288,694</u>	<u>\$ 293,919</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2003	2002
Gas Department		
Rate Filing Costs - In Progress	\$ 2,146	\$ 5,007
Clearing Accounts	1,571	
Unamortized Debt Expense	38,353	42,220
	<u>\$ 42,070</u>	<u>\$ 47,227</u>
Water Department		
Unamortized Debt Expense	\$ 34,011	\$ 37,441
Clearing Accounts	760	
	<u>\$ 34,771</u>	<u>\$ 37,441</u>
	<u>\$ 76,841</u>	<u>\$ 84,668</u>

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the year ended September 30, 2003, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2003	2002
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	18,895	18,325
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 28,560</u>	<u>\$ 27,990</u>

-10-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
Nine months - 2003	(10,296)	62,638	52,342
	\$ (143,226)	\$ 186,879	\$ 43,653
Patronage Capital Retired		(82,035)	(82,035)
	\$ (143,226)	\$ 104,844	\$ (38,382)

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2003 and 2002, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014 to June 30, 2026:

	September 30,	
	2003	2002
Fixed - 7.10%	\$ 1,163,108	\$ 1,230,738
Variable (2.95% in 2003, 3.85% in 2002)	388,638	408,720
Fixed - 7.450%	501,812	509,999
	<u>\$ 2,053,558</u>	<u>\$ 2,149,457</u>
Less: Current Maturities	<u>101,100</u>	<u>93,800</u>
	<u>\$ 1,952,458</u>	<u>\$ 2,055,657</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$58,000. As of September 30, 2003, annual maturities of long-term debt due CFC for the next five years are as follows:

2004	\$ 101,100
2005	107,800
2006	115,100
2007	122,900
2008	131,100

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2003	2002
5% Note Maturing March 2032	\$ 158,350	\$ 160,805
4.5% Note Maturing August 2035	273,943	277,723
4.5% Note Maturing July 2040	93,096	94,067
	<u>\$ 525,389</u>	<u>\$ 532,595</u>
Less: Current Maturities	<u>7,500</u>	<u>7,200</u>
	<u>\$ 517,889</u>	<u>\$ 525,395</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$2,652. As of September 30, 2003, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2004	\$ 7,500
2005	7,900
2006	8,300
2007	8,700
2008	9,100

10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2003, is \$224,465. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

2004	\$ 28,900
2005	31,000
2006	33,400
2007	36,000
2008	38,800

11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2003, is \$155,833. Annual maturities due to AEPCO for the next five years are as follows:

2004	\$ 22,000
2005	22,000
2006	22,000
2007	22,000
2008	22,000

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	2003	2002
Graham County Utilities, Inc.		
Accounts Receivable (Payable)	\$ 153,943	\$ (218,107)
Note Payable	<u>(224,465)</u>	<u>(251,269)</u>
Net Due to Affiliated Cooperative	\$ <u>(70,522)</u>	\$ <u>(469,376)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable (Payable)	\$ (153,943)	\$ 218,107
Note Receivable	<u>224,465</u>	<u>251,269</u>
Net Due from Affiliated Cooperative	\$ <u>70,522</u>	\$ <u>469,376</u>

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

ACCOMPANYING INFORMATION

Continued on next page

**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 22, 2003

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 1

BALANCE SHEET
SEPTEMBER 30, 2003 AND 2002

ASSETS

	September 30,	
	2003	2002
UTILITY PLANT		
Plant in Service	\$ 2,732,344	\$ 2,630,029
Construction Work in Progress	(2,140)	21,675
Plant Acquisition Adjustment	415,484	415,484
	\$ 3,145,688	\$ 3,067,188
Less: Accumulated Provision for Depreciation and Amortization	1,535,791	1,493,996
	\$ 1,609,897	\$ 1,573,192
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 156,076	\$ 158,814
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$13,802 in 2003 and \$3,181 in 2002)	\$ 54,948	\$ 85,623
Materials and Supplies	62,905	58,992
Other Current and Accrued Assets	37,675	32,216
Total Current Assets	\$ 155,528	\$ 176,831
Deferred Charges	\$ 42,070	\$ 47,227
	\$ 1,963,571	\$ 1,956,064

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 26,060	\$ 25,490
Accumulated Deficits	(143,226)	(152,012)
	\$ (117,166)	\$ (126,522)
LONG -TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$ 195,565	\$ 224,469
CFC Mortgage Notes Less Current Maturities	1,133,448	1,189,912
	\$ 1,329,013	\$ 1,414,381
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 84,200	\$ 78,100
Accounts Payable - Other	66,014	64,605
Accounts Payable - Graham County Electric Cooperative	12,769	219,044
Accounts Payable - Water Department	7,283	121,377
Overbilled Consumers Fuel Cost	466,242	75,585
Accrued Taxes	43,495	43,695
Customers' Deposits and Prepayments	62,145	57,875
Accrued Interest	9,576	7,924
Total Current Liabilities	\$ 751,724	\$ 668,205
	\$ 1,963,571	\$ 1,956,064

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	September 30,		Increase (Decrease)
	2003	2002	
OPERATING REVENUES			
Residential	\$ 1,935,383	\$ 2,077,067	\$ (141,684)
Irrigation	22,279	20,950	1,329
Commercial and Industrial	555,590	603,353	(47,763)
Fuel Cost Overbilled	(387,328)	(51,270)	(336,058)
Other Operating Revenues	23,870	23,162	708
Total Operating Revenues	<u>\$ 2,149,794</u>	<u>\$ 2,673,262</u>	<u>\$ (523,468)</u>
OPERATING EXPENSES			
Purchased Gas	\$ 1,064,964	\$ 1,580,613	\$ (515,649)
Operations	236,280	225,412	10,868
Maintenance	235,845	231,821	4,024
Customer Accounts	200,011	181,856	18,155
Administrative and General	196,487	198,691	(2,204)
Depreciation and Amortization	101,411	95,582	5,829
Other Interest	33,368	42,875	(9,507)
Total Operating Expenses	<u>\$ 2,068,366</u>	<u>\$ 2,556,850</u>	<u>\$ (488,484)</u>
OPERATING MARGINS - Before Fixed Charges	\$ 81,428	\$ 116,412	\$ (34,984)
FIXED CHARGES			
Interest on Long-Term Debt	<u>80,085</u>	<u>85,827</u>	<u>(5,742)</u>
OPERATING MARGINS - After Fixed Charges	\$ 1,343	\$ 30,585	\$ (29,242)
Capital Credits	<u>6,709</u>	<u>9,446</u>	<u>(2,737)</u>
NET OPERATING MARGINS	\$ 8,052	\$ 40,031	\$ (31,979)
NONOPERATING MARGINS			
Interest	<u>734</u>	<u>418</u>	<u>316</u>
NET MARGINS	\$ 8,786	\$ 40,449	\$ (31,663)
ACCUMULATED DEFICITS - BEGINNING OF YEAR	<u>(152,012)</u>	<u>(192,461)</u>	
ACCUMULATED DEFICITS - END OF YEAR	<u>\$ (143,226)</u>	<u>\$ (152,012)</u>	

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	September 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 8,786	\$ 40,449
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	101,714	96,188
Capital Credits - Noncash	(6,709)	(9,446)
Deferred Charges	5,157	8,077
Overbilled Fuel Cost - Net	390,657	51,579
Accounts Receivable	30,675	7,683
Inventories and Other Current Assets	(9,372)	17,169
Payables and Accrued Expenses	7,131	21,419
Net Payments to - Water Department	(114,094)	(14,765)
Net Payments to - Graham County Electric Cooperative	(206,275)	(45,800)
Net Cash Provided by Operating Activities	\$ 207,670	\$ 172,553
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (142,489)	\$ (109,941)
Salvage Value of Plant Retired	4,070	
Investments in Associated Organizations	9,447	10,232
Net Cash Used in Investing Activities	\$ (128,972)	\$ (99,709)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (52,464)	\$ (48,707)
Payments on Long-Term Debt - Graham County Electric Cooperative	(26,804)	(24,897)
Memberships	570	760
Net Cash Used in Financing Activities	\$ (78,698)	\$ (72,844)
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 97,782	\$ 105,431
Federal Income Tax	\$ 0	\$ 0

-18-
GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 4

BALANCE SHEET
SEPTEMBER 30, 2003 AND 2002

ASSETS

	September 30,	
	2003	2002
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,918,033	\$ 1,881,521
Construction Work in Progress	(5,292)	2,812
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 2,522,909</u>	<u>\$ 2,494,501</u>
Less: Accumulated Provision for Depreciation and Amortization	1,246,646	1,150,644
	<u>\$ 1,276,263</u>	<u>\$ 1,343,857</u>
 OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 132,618	\$ 135,105
 CURRENT ASSETS		
Cash - General	\$ 18,753	\$ 18,665
Accounts Receivable - Customers (Less allowance for uncollectibles of \$6,017 in 2003 and \$6,152 in 2002)	14,231	17,897
Accounts Receivable - Gas Department	7,283	121,377
Accounts Receivable - Graham County Electric Cooperative	166,712	937
Materials and Supplies	32,939	29,971
Other Current and Accrued Assets	12,558	10,754
Total Current Assets	<u>\$ 252,476</u>	<u>\$ 199,601</u>
 DEFERRED CHARGES	<u>\$ 34,771</u>	<u>\$ 37,441</u>
	<u>\$ 1,696,128</u>	<u>\$ 1,716,004</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	104,844	54,512
	<u>\$ 107,344</u>	<u>\$ 57,012</u>
 LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 819,010	\$ 865,745
AEPCO Notes Payable Less Current Maturities	133,833	155,833
USDA Rural Development Notes Less Current Maturities	517,889	525,395
	<u>\$ 1,470,732</u>	<u>\$ 1,546,973</u>
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 75,300	\$ 71,700
Accounts Payable - Other	11,007	9,136
Accrued Taxes	20,585	20,230
Customers' Deposits and Prepayments	9,075	9,025
Accrued Interest	2,085	1,928
Total Current Liabilities	<u>\$ 118,052</u>	<u>\$ 112,019</u>
	<u>\$ 1,696,128</u>	<u>\$ 1,716,004</u>

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	September 30,		Increase (Decrease)
	2003	2002	
OPERATING REVENUES			
Residential	\$ 468,745	\$ 465,218	\$ 3,527
Commercial and Industrial	54,995	50,855	4,140
Sales for Resale	28,077	24,874	3,203
Other Operating Revenues	2,280	2,120	160
Total Operating Revenues	\$ 554,097	\$ 543,067	\$ 11,030
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 15,021	\$ 21,143	\$ (6,122)
Operations	58,328	58,882	(554)
Maintenance	144,722	172,923	(28,201)
Customer Accounts	39,851	36,428	3,423
Administrative and General	70,197	72,060	(1,863)
Depreciation and Amortization	102,515	99,836	2,679
Other Interest	4,037	3,979	58
Total Operating Expenses	\$ 434,671	\$ 465,251	\$ (30,580)
OPERATING MARGINS - Before Fixed Charges	\$ 119,426	\$ 77,816	\$ 41,610
FIXED CHARGES			
Interest on Long-Term Debt	81,384	86,578	(5,194)
OPERATING MARGINS (DEFICIT) - After Fixed Charges	\$ 38,042	\$ (8,762)	\$ 46,804
Capital Credits	7,369	8,376	(1,007)
NET OPERATING MARGINS (DEFICIT)	\$ 45,411	\$ (386)	\$ 45,797
NONOPERATING MARGINS			
Interest	4,921	6,486	(1,565)
NET MARGINS	\$ 50,332	\$ 6,100	\$ 44,232
ACCUMULATED MARGINS - BEGINNING OF YEAR	54,512	48,412	
ACCUMULATED MARGINS - END OF YEAR	\$ 104,844	\$ 54,512	

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	September 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 50,332	\$ 6,100
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	102,515	99,836
Capital Credits - Noncash	(7,369)	(8,376)
Deferred Charges	2,670	3,465
Accounts Receivable	3,666	985
Inventories and Other Current Assets	(4,772)	(7,690)
Payables and Accrued Expenses	2,433	331
Net Advances from - Gas Department	114,094	14,765
Net Payments to - Graham County Electric Cooperative	(165,775)	(2,950)
Net Cash Provided by Operating Activities	\$ 97,794	\$ 106,466
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (34,921)	\$ (48,021)
Investments in Associated Organizations	9,856	11,045
Net Cash Used in Investing Activities	\$ (25,065)	\$ (36,976)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable to AEPCO	\$ (22,000)	\$ (22,000)
Payments on Long-Term Debt to CFC	(43,435)	(40,325)
Payments on Long-Term Debt to USDA	(7,206)	(6,883)
Net Cash Used in Financing Activities	\$ (72,641)	\$ (69,208)
INCREASE IN CASH	\$ 88	\$ 282
CASH - BEGINNING OF YEAR	18,665	18,383
CASH - END OF YEAR	\$ 18,753	\$ 18,665
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 81,384	\$ 86,578
Federal Income Tax	\$ 0	\$ 0

COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING
AUDITS OF CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2003, and have issued our report thereon dated October 22, 2003.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 22, 2003

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

Independent Auditors' Report

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2003, and have issued our report thereon dated October 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the boards of directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 22, 2003

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

INDIANA SPOONER GILBERT & MUND, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.
Pima, Arizona

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditors' Report		1
Financial Statements		
Balance Sheet	Exhibit A	2
Statement of Income and Accumulated Margins (Deficits)	Exhibit B	3
Statement of Cash Flows	Exhibit C	4
Notes to Financial Statements		5
Accompanying Information		
Independent Auditors' Report on Accompanying Information		14
Individual Department - Financial Statements		
Gas Department		
Balance Sheet	Schedule 1	15
Statement of Income and Accumulated Margins (Deficits)	Schedule 2	16
Statement of Cash Flows	Schedule 3	17
Water Department		
Balance Sheet	Schedule 4	18
Statement of Income and Accumulated Margins	Schedule 5	19
Statement of Cash Flows	Schedule 6	20
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		21
Independent Auditors' Report: Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		22

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

INDEPENDENT AUDITORS' REPORT

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheet of Graham County Utilities, Inc., as of September 30, 2002 and 2001, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2002, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and its compliance with certain provision of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 23, 2002

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEET
SEPTEMBER 30, 2002 AND 2001

ASSETS

	September 30,	
	2002	2001
UTILITY PLANT		
Plant in Service	\$ 4,511,550	\$ 4,198,332
Construction Work in Progress	24,487	179,742
Plant Acquisition Adjustment	1,025,652	1,025,652
	<u>\$ 5,561,689</u>	<u>\$ 5,403,726</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>2,644,640</u>	<u>2,448,615</u>
	<u>\$ 2,917,049</u>	<u>\$ 2,955,111</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 293,919	\$ 297,374
CURRENT ASSETS		
Cash - General	\$ 18,665	\$ 18,383
Accounts Receivable (Less allowance for uncollectibles of \$9,333 in 2002 and \$5,909 in 2001)	103,520	112,188
Materials and Supplies	88,963	104,425
Other Current and Accrued Assets	42,970	36,987
Total Current Assets	<u>\$ 254,118</u>	<u>\$ 271,983</u>
DEFERRED CHARGES	<u>\$ 84,668</u>	<u>\$ 96,210</u>
	<u>\$ 3,549,754</u>	<u>\$ 3,620,678</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 27,990	\$ 27,230
Accumulated Deficits	(97,500)	(144,049)
	<u>\$ (69,510)</u>	<u>\$ (116,819)</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 2,055,657	\$ 2,151,288
AEPKO Note Payable Less Current Maturities	155,833	177,833
Graham County Electric Cooperative Note Payable Less Current Maturities	224,469	251,266
USDA Rural Development Note Payable Less Current Maturities	525,395	534,249
	<u>\$ 2,961,354</u>	<u>\$ 3,114,636</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 149,800	\$ 139,330
Accounts Payable - Graham County Electric Cooperative	218,107	266,857
Accounts Payable - Other	73,741	59,817
Overbilled Consumers Fuel Cost	75,585	24,006
Customers' Deposits and Prepayments	66,900	61,285
Accrued Taxes	63,925	63,267
Accrued Interest	9,852	8,299
Total Current Liabilities	<u>\$ 657,910</u>	<u>\$ 622,861</u>
	<u>\$ 3,549,754</u>	<u>\$ 3,620,678</u>

See accompanying notes to financial statements.

HOLANDE, GORDON, GILBERT & MOON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	September 30,	
	2002	2001
OPERATING REVENUES	\$ 3,216,329	\$ 3,820,037
OPERATING EXPENSES		
Purchased Gas	\$ 1,580,613	\$ 2,232,832
Power for Pumping	21,143	17,476
Operations	284,294	282,152
Maintenance	404,744	303,539
Consumer Accounts	218,284	233,050
Administrative and General	270,751	246,882
Depreciation and Amortization	195,418	185,937
Other Interest	46,854	66,116
Total Operating Expenses	\$ 3,022,101	\$ 3,567,984
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 194,228	\$ 252,053
Interest on Long-Term Debt	172,405	188,369
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 21,823	\$ 63,684
Capital Credits	17,822	17,468
NET OPERATING MARGINS	\$ 39,645	\$ 81,152
NONOPERATING MARGINS		
Interest	6,904	13,601
NET MARGINS	\$ 46,549	\$ 94,753
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(144,049)	(192,132)
PATRONAGE CAPITAL RETIRED - WATER DEPARTMENT		(46,670)
ACCUMULATED DEFICITS - END OF YEAR	\$ (97,500)	\$ (144,049)

See accompanying notes to financial statements.

BRIDGEMAN, BECKMAN, GILBERT & NOON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	September 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 46,549	\$ 94,753
Adjustments to Reconcile Net Margins to		
Net Cash Provided by Operating Activities		
Depreciation and Amortization	196,024	186,543
Capital Credits - Noncash	(17,822)	(17,468)
Under/ Overbilled Fuel Cost - Net Change	51,579	135,836
Deferred Charges	11,542	5,711
Accounts Receivable	8,668	(46,080)
Inventories and Other Current Assets	9,479	(24,410)
Payables and Accrued Expenses	21,750	(13,442)
Net Payments to - Graham County Electric Cooperative	(48,750)	(14,904)
Net Cash Provided by Operating Activities	\$ 279,019	\$ 306,539
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (157,962)	\$ (227,126)
Investments in Associated Organizations	21,277	20,476
Net Cash Used in Investing Activities	\$ (136,685)	\$ (206,650)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable to AEPCO	\$ (22,000)	\$ (20,167)
Payments on Long-Term Debt to CFC	(89,032)	(82,663)
Payments on Long-Term Debt to GCEC	(24,897)	(23,127)
Advances on Long-Term Debt from USDA		95,000
Payments on Long-Term Debt to USDA	(6,883)	(5,692)
Payment of Capital Credits		(46,670)
Memberships	760	295
Net Cash Used in Financing Activities	\$ (142,052)	\$ (83,024)
INCREASE IN CASH	\$ 282	\$ 16,865
CASH - BEGINNING OF YEAR	18,383	1,518
CASH - END OF YEAR	\$ 18,665	\$ 18,383
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on Long-Term Debt	\$ 192,009	\$ 239,293
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

BOLANDER, WIGGANS, KILGORE & NOLAN, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2002 and 2001, was estimated to be \$53,469 and \$52,394 in the gas department and \$30,996 and \$32,790 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2002 and 2001, the cooperative had overbillings of \$75,585 and overbillings of \$24,006, respectively.

Group Concentration of Credit Risk

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of 6%. Deposits on hand totaled \$66,900 and \$61,285 at September 30, 2002 and 2001, respectively.

-6-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Federal Income Tax Status

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85 percent of income consisting of amounts received from members.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

-7-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2002			September 30, 2001
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		447,948	447,948	388,665
Transmission		983,468	983,468	894,497
Distribution	2,499,816	217,494	2,717,310	2,572,547
General	86,275	178,896	265,171	245,295
Land and Land Rights	1,416	16,007	17,423	17,098
Total Plant in Service	\$ 2,630,029	\$ 1,881,521	\$ 4,511,550	\$ 4,198,332
Construction Work in Progress	21,675	2,812	24,487	179,742
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 3,067,188	\$ 2,494,501	\$ 5,561,689	\$ 5,403,726

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.8%	
Services	4.1%	
Meters - Regulators	2.6%	
Structures	2.3%	
General	6.7%-13.3%	10%-20%

Depreciation accruals charged to expense for the periods ended September 30, 2002 and 2001, totaled \$154,392 and \$144,911, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

The plant acquisition costs and related provision for amortization at September 30, 2002, are summarized as follows:

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

	Gas Department	Water Department
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 199,433	\$ 292,880
Current Year	16,619	24,407
	<u>\$ 216,052</u>	<u>\$ 317,287</u>
Unamortized Adjustment	<u>\$ 199,432</u>	<u>\$ 292,881</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	2002	2001
<u>CFC</u>		
Capital Term Certificates	\$ 193,622	\$ 196,099
Patronage Capital	95,739	96,717
Memberships	1,000	1,000
	<u>\$ 290,361</u>	<u>\$ 293,816</u>
<u>Graham County Electric Cooperative, Inc.</u>		
Patronage Capital	\$ 3,558	\$ 3,558
	<u>\$ 293,919</u>	<u>\$ 297,374</u>

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2002	2001
<u>Gas Department</u>		
Rate Filing Costs – In Progress	\$ 5,007	\$ 7,868
Clearing Accounts		1,348
Unamortized Debt Expense	42,220	46,088
	<u>\$ 47,227</u>	<u>\$ 55,304</u>
<u>Water Department</u>		
Unamortized Debt Expense	\$ 37,441	\$ 40,870
Clearing Accounts		36
	<u>\$ 37,441</u>	<u>\$ 40,906</u>
	<u>\$ 84,668</u>	<u>\$ 96,210</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for fifteen years with a conversion fee of \$109,457. Amortization expense for the year ended September 30, 2002, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2002	2001
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to 1 vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc.; \$5 membership fee, entitled to one vote per membership	18,325	17,565
Class C Memberships		
All others who receive service; \$5 membership fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 27,990</u>	<u>\$ 27,230</u>

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
Nine Months - 2002	<u>42,042</u>	<u>13,431</u>	<u>55,473</u>
	<u>\$ (152,012)</u>	<u>\$ 136,547</u>	<u>\$ (15,465)</u>
Patronage Capital Retired		(82,035)	(82,035)
	<u>\$ (152,012)</u>	<u>\$ 54,512</u>	<u>\$ (97,500)</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2002 and 2001, the water department retired patronage capital in the amount of \$0 and \$46,670, respectively.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed thirty percent of the total assets of the cooperative, the return to patrons of capital contributed by them is limited. Due to the net accumulated deficit for the cooperative as a whole, the patronage capital retirements for September 30, 2001, were in non-compliance with the mortgage agreement.

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014 to June 30, 2026:

	September 30,	
	2002	2001
Fixed - 7.10%	\$ 1,230,738	\$ 1,293,771
Variable (3.85% - 2002; 6.15% - 2001)	408,720	427,115
Fixed – 7.450%	509,999	517,602
	\$ 2,149,457	\$ 2,238,488
Less: Current Maturities	93,800	87,200
	<u>\$ 2,055,657</u>	<u>\$ 2,151,288</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$59,000. As of September 30, 2002, annual maturities of long-term debt due CFC for the next five years are as follows:

2003	\$ 93,800
2004	100,100
2005	106,900
2006	114,100
2007	121,800

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	<u>September 30,</u>	
	<u>2002</u>	<u>2001</u>
5% Note Maturing March 2032	\$ 160,805	\$ 163,142
4.5% Note Maturing August 2035	277,723	281,337
5.5% Note Maturing July 2040	<u>94,067</u>	<u>95,000</u>
	\$ 532,595	\$ 539,479
Less: Current Maturities	<u>7,200</u>	<u>5,230</u>
	<u>\$ 525,395</u>	<u>\$ 534,249</u>

Principal and interest installments on the above notes are due monthly in amounts of \$2,652. As of September 30, 2002, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2003	\$ 7,200
2004	7,500
2005	7,900
2006	8,300
2007	8,700

10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over ten years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2002, is \$251,269. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

2003	\$ 26,800
2004	28,900
2005	31,000
2006	33,400
2007	36,000

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2002, is \$177,833. Annual maturities due to AEPCO for the next five years are as follows:

2003	\$ 22,000
2004	22,000
2005	22,000
2006	22,000
2007	22,000

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	2002	2001
Graham County Utilities, Inc.		
Accounts Payable	\$ (218,107)	\$ (266,857)
Note Payable	<u>(251,269)</u>	<u>(276,166)</u>
Net Due to Affiliated Cooperative	<u>\$ (469,376)</u>	<u>\$ (543,023)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 218,107	\$ 266,857
Note Receivable	<u>251,269</u>	<u>276,166</u>
Net Due from Affiliated Cooperative	<u>\$ 469,376</u>	<u>\$ 543,023</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

14. Commitments

In August 2001, the cooperative committed to purchase 256,823 MMBtu of natural gas at \$3.49 per MMBtu over the period October 2002 through March 2003.

ACCOMPANYING INFORMATION

FRANKE, EYON, GILBERT & CO., L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 23, 2002

BALINGER, SEGARS, GILBERT & MOSS, LLP
CERTIFIED PUBLIC ACCOUNTANTS

-15-
GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 1

BALANCE SHEET
SEPTEMBER 30, 2002 AND 2001

ASSETS

	September 30,	
	<u>2002</u>	<u>2001</u>
UTILITY PLANT		
Plant in Service	\$ 2,630,029	\$ 2,486,645
Construction Work in Progress	21,675	55,117
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 3,067,188</u>	<u>\$ 2,957,246</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>1,493,996</u>	<u>1,397,807</u>
	<u>\$ 1,573,192</u>	<u>\$ 1,559,439</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	<u>\$ 158,814</u>	<u>\$ 159,600</u>
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$3,181 in 2002 and \$739 in 2001)	\$ 85,623	\$ 93,306
Materials and Supplies	58,992	80,621
Other Current and Accrued Assets	32,216	27,756
Total Current Assets	<u>\$ 176,831</u>	<u>\$ 201,683</u>
Deferred Charges	<u>\$ 47,227</u>	<u>\$ 55,304</u>
	<u>\$ 1,956,064</u>	<u>\$ 1,976,026</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 25,490	\$ 24,730
Accumulated Deficits	(152,012)	(192,461)
	<u>\$ (126,522)</u>	<u>\$ (167,731)</u>
LONG -TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$ 224,469	\$ 251,266
CFC Mortgage Notes Less Current Maturities	1,189,912	1,242,219
	<u>\$ 1,414,381</u>	<u>\$ 1,493,485</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 78,100	\$ 72,600
Accounts Payable - Other	64,605	52,707
Accounts Payable - Graham County Electric Cooperative	219,044	264,844
Accounts Payable - Water Department	121,377	136,142
Overbilled Consumers Fuel Cost	75,585	24,006
Accrued Taxes	43,695	40,550
Customers' Deposits and Prepayments	57,875	52,785
Accrued Interest	7,924	6,638
Total Current Liabilities	<u>\$ 668,205</u>	<u>\$ 650,272</u>
	<u>\$ 1,956,064</u>	<u>\$ 1,976,026</u>

**GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT**

Schedule 2

**STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

	September 30,		Increase (Decrease)
	2002	2001	
OPERATING REVENUES			
Residential	\$ 2,077,067	\$ 2,642,587	\$ (565,520)
Irrigation	20,950	17,263	3,687
Commercial and Industrial	603,353	784,943	(181,590)
Fuel Cost Overbilled	(51,270)	(148,947)	97,677
Other Operating Revenues	<u>23,162</u>	<u>25,922</u>	<u>(2,760)</u>
Total Operating Revenues	\$ <u>2,673,262</u>	\$ <u>3,321,768</u>	\$ <u>(648,506)</u>
OPERATING EXPENSES			
Purchased Gas	\$ 1,580,613	\$ 2,232,832	\$ (652,219)
Operations	225,412	215,308	10,104
Maintenance	231,821	216,549	15,272
Customer Accounts	181,856	193,997	(12,141)
Administrative and General	198,691	179,087	19,604
Depreciation and Amortization	95,582	91,918	3,664
Other Interest	<u>42,875</u>	<u>67,219</u>	<u>(24,344)</u>
Total Operating Expenses	\$ <u>2,556,850</u>	\$ <u>3,196,910</u>	\$ <u>(640,060)</u>
OPERATING MARGINS - Before Fixed Charges	\$ 116,412	\$ 124,858	\$ (8,446)
FIXED CHARGES			
Interest on Long-Term Debt	<u>85,827</u>	<u>95,143</u>	<u>(9,316)</u>
OPERATING MARGINS - After Fixed Charges	\$ 30,585	\$ 29,715	\$ 870
Capital Credits	<u>9,446</u>	<u>9,258</u>	<u>188</u>
NET OPERATING MARGINS	\$ 40,031	\$ 38,973	\$ 1,058
NONOPERATING MARGINS			
Interest	<u>418</u>	<u>13,426</u>	<u>(13,008)</u>
NET MARGINS	\$ 40,449	\$ 52,399	\$ <u>(11,950)</u>
ACCUMULATED DEFICITS - BEGINNING OF YEAR	<u>(192,461)</u>	<u>(244,860)</u>	
ACCUMULATED DEFICITS - END OF YEAR	\$ <u>(152,012)</u>	\$ <u>(192,461)</u>	

McMURRAY BARRETT, CLERK & ASSOC., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT**

Schedule 3

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

	September 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 40,449	\$ 52,399
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	96,188	92,524
Capital Credits - Noncash	(9,446)	(9,258)
Deferred Charges	8,077	2,276
Under/Overbilled Fuel Cost - Net	51,579	135,836
Accounts Receivable	7,683	(42,765)
Inventories and Other Current Assets	17,169	(20,167)
Payables and Accrued Expenses	21,419	(3,360)
Net Payments to - Water Department	(14,765)	(12,708)
Net Payments to - Graham County Electric Cooperative	(45,800)	(13,675)
Net Cash Provided by Operating Activities	\$ 172,553	\$ 181,102
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (109,941)	\$ (122,853)
Investments in Associated Organizations	10,232	9,807
Net Cash Used in Investing Activities	\$ (99,709)	\$ (113,046)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (48,707)	\$ (45,224)
Payments on Long-Term Debt - Graham County Electric Cooperative	(24,897)	(23,127)
Memberships	760	295
Net Cash Used in Financing Activities	\$ (72,844)	\$ (68,056)
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 105,431	\$ 148,747
Federal Income Tax	\$ 0	\$ 0

**GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT**

Schedule 4

**BALANCE SHEET
SEPTEMBER 30, 2002 AND 2001**

ASSETS

	September 30,	
	2002	2001
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,881,521	\$ 1,711,687
Construction Work in Progress	2,812	124,625
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 2,494,501</u>	<u>\$ 2,446,480</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>1,150,644</u>	<u>1,050,808</u>
	<u>\$ 1,343,857</u>	<u>\$ 1,395,672</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 135,105	\$ 137,774
CURRENT ASSETS		
Cash - General	\$ 18,665	\$ 18,383
Accounts Receivable - Customers (Less allowance for uncollectibles of \$6,152 in 2002 and \$5,170 in 2001)	17,897	18,882
Accounts Receivable - Gas Department	121,377	136,142
Accounts Receivable - Graham County Electric Cooperative	937	
Materials and Supplies	29,971	23,804
Other Current and Accrued Assets	10,754	9,231
Total Current Assets	<u>\$ 199,601</u>	<u>\$ 206,442</u>
DEFERRED CHARGES		
	\$ 37,441	\$ 40,906
	<u>\$ 1,716,004</u>	<u>\$ 1,780,794</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	54,512	48,412
	<u>\$ 57,012</u>	<u>\$ 50,912</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 865,745	\$ 909,069
AEPCO Notes Payable Less Current Maturities	155,833	177,833
USDA Rural Development Notes Less Current Maturities	525,395	534,249
	<u>\$ 1,546,973</u>	<u>\$ 1,621,151</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 71,700	\$ 66,730
Accounts Payable - Other	9,136	7,110
Accounts Payable - Graham County Electric Cooperative		2,013
Accrued Taxes	20,230	22,717
Customers' Deposits and Prepayments	9,025	8,500
Accrued Interest	1,928	1,661
Total Current Liabilities	<u>\$ 112,019</u>	<u>\$ 108,731</u>
	<u>\$ 1,716,004</u>	<u>\$ 1,780,794</u>

WILLIAM H. HARRIS, CHARTERED PUBLIC ACCOUNTANT
WILLIAM H. HARRIS, CHARTERED PUBLIC ACCOUNTANT

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	September 30,		Increase (Decrease)
	2002	2001	
OPERATING REVENUES			
Residential	\$ 465,218	\$ 427,231	\$ 37,987
Commercial and Industrial	50,855	41,444	9,411
Sales for Resale	24,874	27,124	(2,250)
Other Operating Revenues	<u>2,120</u>	<u>2,470</u>	<u>(350)</u>
Total Operating Revenues	\$ <u>543,067</u>	\$ <u>498,269</u>	\$ <u>44,798</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 21,143	\$ 17,476	\$ 3,667
Operations	58,882	66,844	(7,962)
Maintenance	172,923	86,990	85,933
Customer Accounts	36,428	39,053	(2,625)
Administrative and General	72,060	67,795	4,265
Depreciation and Amortization	99,836	94,019	5,817
Other Interest	<u>3,979</u>	<u>4,669</u>	<u>(690)</u>
Total Operating Expenses	\$ <u>465,251</u>	\$ <u>376,846</u>	\$ <u>88,405</u>
OPERATING MARGINS - Before Fixed Charges	\$ 77,816	\$ 121,423	\$ (43,607)
FIXED CHARGES			
Interest on Long-Term Debt	<u>86,578</u>	<u>93,226</u>	<u>(6,648)</u>
OPERATING MARGINS (DEFICIT) - After Fixed Charges	\$ (8,762)	\$ 28,197	\$ (36,959)
Capital Credits	<u>8,376</u>	<u>8,210</u>	<u>166</u>
NET OPERATING MARGINS (DEFICIT)	\$ (386)	\$ 36,407	\$ (36,793)
NONOPERATING MARGINS			
Interest	<u>6,486</u>	<u>5,947</u>	<u>539</u>
NET MARGINS	\$ 6,100	\$ 42,354	\$ <u>(36,254)</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	48,412	52,728	
PATRONAGE CAPITAL RETIRED		<u>(46,670)</u>	
ACCUMULATED MARGINS - END OF YEAR	\$ <u>54,512</u>	\$ <u>48,412</u>	

**GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT**

Schedule 6

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

	September 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 6,100	\$ 42,354
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	99,836	94,019
Capital Credits - Noncash	(8,376)	(8,210)
Deferred Charges	3,465	3,435
Accounts Receivable	985	(3,315)
Inventories and Other Current Assets	(7,690)	(4,243)
Payables and Accrued Expenses	331	(10,082)
Net Advances from - Gas Department	14,765	12,708
Net Payments to - Graham County Electric Cooperative	(2,950)	(1,229)
Net Cash Provided by Operating Activities	\$ 106,466	\$ 125,437
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (48,021)	\$ (104,273)
Investments in Associated Organizations	11,045	10,669
Net Cash Used in Investing Activities	\$ (36,976)	\$ (93,604)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable to AEPCO	\$ (22,000)	\$ (20,167)
Payments on Long-Term Debt to CFC	(40,325)	(37,439)
Advances on Long-Term Debt from USDA		95,000
Payments on Long-Term Debt to USDA	(6,883)	(5,692)
Payment of Capital Credits		(46,670)
Net Cash Used in Financing Activities	\$ (69,208)	\$ (14,968)
INCREASE IN CASH	\$ 282	\$ 16,865
CASH - BEGINNING OF YEAR	18,383	1,518
CASH - END OF YEAR	\$ 18,665	\$ 18,383
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 86,578	\$ 90,546
Federal Income Tax	\$ 0	\$ 0

COMPLIANCE AND INTERNAL CONTROL SECTION

ROBINSON, MORGAN, CHURCH & BOWEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1023 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING
AUDITS OF CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2002, and have issued our report thereon dated October 23, 2002.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This letter supplements the information included in the financial statements and notes. It is intended solely for the use of management, CFC, and supplemental lenders and should not be used for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 23, 2002

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

Independent Auditors' Report

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2002, and have issued our report thereon dated October 23, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 23, 2002

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BRUNSON, BRUNSON, GILBERT & FINE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.
Pima, Arizona

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditors' Report		1
Financial Statements		
Balance Sheet	Exhibit A	2
Statement of Income and Accumulated Margins (Deficits)	Exhibit B	3
Statement of Cash Flows	Exhibit C	4
Notes to Financial Statements		5
Accompanying Information		
Independent Auditors' Report on Accompanying Information		14
Individual Department - Financial Statements		
Gas Department		
Balance Sheet	Schedule 1	15
Statement of Income and Accumulated Margins (Deficits)	Schedule 2	16
Statement of Cash Flows	Schedule 3	17
Water Department		
Balance Sheet	Schedule 4	18
Statement of Income and Accumulated Margins	Schedule 5	19
Statement of Cash Flows	Schedule 6	20
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		21
Independent Auditors' Report: Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		23
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133		24
Schedule of Findings and Questions Costs		26
Corrective Action Plan		27
Schedule of Status of Prior Findings		28
Schedule of Expenditure of Federal Awards		29

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1823 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

INDEPENDENT AUDITORS' REPORT

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheet of Graham County Utilities, Inc., as of September 30, 2001 and 2000, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2001, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and its compliance with certain provision of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the financial statements of Graham County Utilities, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

October 25, 2001

-2-
GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET
SEPTEMBER 30, 2001 AND 2000**

ASSETS

	September 30,	
	2001	2000
UTILITY PLANT		
Plant in Service	\$ 4,198,332	\$ 4,105,042
Construction Work in Progress	179,742	45,906
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 5,403,726	\$ 5,176,600
Less: Accumulated Provision for Depreciation and Amortization	<u>2,448,615</u>	<u>2,262,072</u>
	\$ <u>2,955,111</u>	\$ <u>2,914,528</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ <u>297,374</u>	\$ <u>300,382</u>
CURRENT ASSETS		
Cash - General	\$ 18,383	\$ 1,518
Accounts Receivable (Less allowance for uncollectibles of \$5,909 in 2001 and \$13,313 in 2000)	112,188	66,108
Underbilled Consumers Fuel Cost		111,830
Accounts Receivable - GCEC		1,612
Materials and Supplies	104,425	91,022
Other Current and Accrued Assets	<u>36,987</u>	<u>25,980</u>
Total Current Assets	\$ <u>271,983</u>	\$ <u>298,070</u>
DEFERRED CHARGES	\$ <u>96,210</u>	\$ <u>101,921</u>
	\$ <u>3,620,678</u>	\$ <u>3,614,901</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 27,230	\$ 26,935
Accumulated Deficits	<u>(144,049)</u>	<u>(192,132)</u>
	\$ <u>(116,819)</u>	\$ <u>(165,197)</u>
LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 2,151,288	\$ 2,240,051
Note Payable - AEPCO Less Current Maturities	177,833	198,000
Note Payable - GCEC Less Current Maturities	251,266	276,166
USDA Rural Development Note Payable Less Current Maturities	<u>534,249</u>	<u>444,674</u>
	\$ <u>3,114,636</u>	\$ <u>3,158,891</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 139,330	\$ 131,724
Accounts Payable - GCEC	266,857	283,373
Accounts Payable - Other	59,817	93,886
Overbilled Consumers Fuel Cost	24,006	
Customers' Deposits and Prepayments	61,285	58,400
Accrued Taxes	63,267	48,744
Accrued Interest	<u>8,299</u>	<u>7,080</u>
Total Current Liabilities	\$ <u>622,861</u>	\$ <u>621,207</u>
	\$ <u>3,620,678</u>	\$ <u>3,614,901</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC. & SUBSIDIARIES
BALANCE SHEET - SEPTEMBER 30, 2001 AND 2000

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

	September 30,	
	2001	2000
OPERATING REVENUES	\$ 3,820,037	\$ 2,590,464
OPERATING EXPENSES		
Purchased Gas	\$ 2,232,832	\$ 1,064,742
Power for Pumping	17,476	15,866
Operations	282,152	245,722
Maintenance	303,539	325,832
Consumer Accounts	233,050	229,294
Administrative and General	246,882	263,817
Depreciation and Amortization	185,937	181,069
Other Interest	66,116	51,080
Total Operating Expenses	\$ 3,567,984	\$ 2,377,422
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 252,053	\$ 213,042
Interest on Long-Term Debt	188,369	191,915
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 63,684	\$ 21,127
Capital Credits	17,468	16,689
NET OPERATING MARGINS	\$ 81,152	\$ 37,816
NONOPERATING MARGINS		
Interest	13,601	10,992
NET MARGINS	\$ 94,753	\$ 48,808
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(192,132)	(205,575)
PATRONAGE CAPITAL RETIRED - WATER DEPARTMENT	(46,670)	(35,365)
ACCUMULATED DEFICITS - END OF YEAR	\$ (144,049)	\$ (192,132)

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

	September 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 94,753	\$ 48,808
Adjustments to Reconcile Net Margins to		
Net Cash Provided by Operating Activities		
Depreciation and Amortization	186,543	181,676
Capital Credits - Noncash	(17,468)	(16,689)
Under/ Overbilled Fuel Cost - Net Change	135,836	(199,832)
Deferred Charges	5,711	16,497
Accounts Receivable	(46,080)	(9,550)
Inventories and Other Current Assets	(24,410)	8,410
Payables and Accrued Expenses	(13,442)	64,338
Net Advances from (Payments to) - GCEC	(14,904)	212,356
Net Cash Provided by Operating Activities	\$ 306,539	\$ 306,014
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (227,126)	\$ (207,517)
Investments in Associated Organizations	20,476	19,422
Net Cash Used in Investing Activities	\$ (206,650)	\$ (188,095)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Note Payable from AEPCO	\$	\$ 46,049
Payments on Note Payable to AEPCO	(20,167)	
Payments on Long-Term Debt to CFC	(82,663)	(76,751)
Payments on Long-Term Debt to GCEC	(23,127)	(46,247)
Advances on Long-Term Debt from USDA	95,000	
Payments on Long-Term Debt to USDA	(5,692)	(5,655)
Payment of Capital Credits	(46,670)	(35,365)
Memberships	295	50
Net Cash Used in Financing Activities	\$ (83,024)	\$ (117,919)
INCREASE IN CASH	\$ 16,865	\$ 0
CASH - BEGINNING OF YEAR	1,518	1,518
CASH - END OF YEAR	\$ 18,383	\$ 1,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on Long-Term Debt	\$ 239,293	\$ 222,525
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC. - FINANCIAL STATEMENTS
 SEPTEMBER 30, 2001 AND 2000

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. ~~The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).~~

Basis of Accounting

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2001 and 2000, was estimated to be \$52,394 and \$46,316 in the gas department and \$32,790 and \$34,742 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2001 and 2000, the cooperative had overbillings of \$24,006 and underbillings of \$111,830, respectively.

Group Concentration of Credit Risk

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of 6%. Deposits on hand totaled \$61,285 and \$56,400 at September 30, 2001 and 2000, respectively.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Federal Income Tax Status

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85 percent of income consisting of amounts received from members.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

Certain amounts in the prior period financial statements have been reclassified in order to conform with current period presentation.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts.

-7-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2001			September 30, 2000
	<u>Gas Department</u>	<u>Water Department</u>	<u>Total</u>	<u>Total</u>
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		388,665	388,665	388,665
Transmission		894,497	894,497	894,497
Distribution	2,362,241	210,306	2,572,547	2,485,383
General	80,791	164,504	245,295	239,169
Land	1,091	16,007	17,098	17,098
Total Plant in Service	\$ 2,486,645	\$ 1,711,687	\$ 4,198,332	\$ 4,105,042
Construction Work in Progress	55,117	124,625	179,742	45,906
Electric Plant Acquisition Adjustment	<u>415,484</u>	<u>610,168</u>	<u>1,025,652</u>	<u>1,025,652</u>
Total Utility Plant	<u>\$ 2,957,246</u>	<u>\$ 2,446,480</u>	<u>\$ 5,403,726</u>	<u>\$ 5,176,600</u>

Provision has been made for depreciation on straight-line composite rates as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.8%	
Services	4.1%	
Meters - Regulators	2.6%	
Structures	2.3%	
General	6.7%-13.3%	10%-16.67%

Depreciation accruals charged to expense for the periods ended September 30, 2001 and 2000 totaled \$144,911 and \$140,043, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2001 are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 182,814	\$ 268,473
Current Year	16,619	24,407
	<u>\$ 199,433</u>	<u>\$ 292,880</u>
Unamortized Adjustment	<u>\$ 216,051</u>	<u>\$ 317,288</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2001</u>	<u>2000</u>
<u>CFC</u>		
Capital Term Certificates	\$ 196,099	\$ 198,024
Patronage Capital	96,717	97,800
Memberships	1,000	1,000
	<u>\$ 293,816</u>	<u>\$ 296,824</u>
<u>Graham County Electric Cooperative, Inc.</u>		
Patronage Capital	\$ 3,558	\$ 3,558
	<u>\$ 297,374</u>	<u>\$ 300,382</u>

5. Deferred Charges

Deferred charges consisted of the following:

	<u>September 30,</u>	
	<u>2001</u>	<u>2000</u>
<u>Gas Department</u>		
Rate Filing Costs - In Progress	\$ 7,868	\$ 7,540
Clearing Accounts	1,348	85
Unamortized Debt Expense	46,088	49,955
	<u>\$ 55,304</u>	<u>\$ 57,580</u>
<u>Water Department</u>		
Unamortized Debt Expense	\$ 40,870	\$ 44,300
Clearing Accounts	36	41
	<u>\$ 40,906</u>	<u>\$ 44,341</u>
	<u>\$ 96,210</u>	<u>\$ 101,921</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for fifteen years with a conversion fee of \$109,457. Amortization expense for the year ended September 30, 2001 is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2001	2000
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to 1 vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc.; \$5 membership fee, entitled to one vote per membership	17,565	17,300
Class C Memberships		
All others who receive service; \$5 membership fee, entitled to one vote per membership	4,665	4,635
	<u>\$ 27,230</u>	<u>\$ 26,935</u>

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,042)	(28,602)	(200,644)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
Nine Months - 2001	<u>40,654</u>	<u>48,072</u>	<u>88,726</u>
	<u>\$ (192,461)</u>	<u>\$ 130,447</u>	<u>\$ (62,014)</u>
Patronage Capital Retired		(82,035)	(82,035)
	<u>\$ (192,461)</u>	<u>\$ 48,412</u>	<u>\$ (144,049)</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2001 and 2000, the water department retired patronage capital in the amount of \$46,670 and \$35,365, respectively.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed thirty percent of the total assets of the cooperative, the return to patrons of capital contributed by them is limited. Due to the net accumulated deficit for the cooperative as a whole, the patronage capital retirements for both September 30, 2001 and 2000 were in non-compliance with the mortgage agreement.

8. Mortgage Notes - CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014:

	September 30,	
	2001	2000
Fixed - 7.10%	\$ 1,293,771	\$ 1,352,522
Variable (6.15% - 2001; 7.6% - 2000)	427,115	443,964
Fixed - 7.450%	<u>517,602</u>	<u>524,665</u>
	\$ 2,238,488	\$ 2,321,151
Less: Current Maturities	<u>87,200</u>	<u>81,100</u>
	<u>\$ 2,151,288</u>	<u>\$ 2,240,051</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$61,000. As of September 30, 2001, annual maturities of long-term debt due CFC for the next five years are as follows:

2002	\$ 87,200
2003	93,400
2004	100,100
2005	107,200
2006	114,900

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan is \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2001 is \$199,833. Annual maturities due to AEPCO for the next five years are as follows:

2002	\$ 22,000
2003	22,000
2004	22,000
2005	22,000
2006	22,000

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	2001	2000
Graham County Utilities, Inc.		
Accounts Receivable	\$	\$ 1,612
Accounts Payable	(266,857)	(266,979)
Note Payable	(276,166)	(322,420)
Net Due to Affiliated Cooperative	\$ (543,023)	\$ (587,787)
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 266,857	\$ 265,367
Note Receivable	276,166	322,420
Net Due from Affiliated Cooperative	\$ 543,023	\$ 587,787

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

14. Commitments

In March 2001, the cooperative committed to purchase 12,225 MMBtu of natural gas through the period ending September 30, 2002 at \$5.10 per MMBtu.

In August 2001, the cooperative committed to purchase 256,823 MMBtu of natural gas at \$3.49 per MMBtu over the period October 2002 through March 2003.

ACCOMPANYING INFORMATION

THIRTY-THIRD ANNUAL REPORT OF THE
COMPTROLLER OF THE CURRENCY

**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 25, 2001

-15-
GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 1

BALANCE SHEET
SEPTEMBER 30, 2001 AND 2000

ASSETS

	September 30,	
	2001	2000
UTILITY PLANT		
Plant in Service	\$ 2,486,645	\$ 2,402,353
Construction Work in Progress	55,117	16,555
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 2,957,246</u>	<u>\$ 2,834,392</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>1,397,807</u>	<u>1,305,282</u>
	<u>\$ 1,559,439</u>	<u>\$ 1,529,110</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	<u>\$ 159,600</u>	<u>\$ 160,149</u>
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$739 in 2001 and \$7,428 in 2000)	\$ 93,306	\$ 50,541
Underbilled Consumers Fuel Cost		111,830
Materials and Supplies	80,621	68,665
Other Current and Accrued Assets	27,756	19,545
Total Current Assets	<u>\$ 201,683</u>	<u>\$ 250,581</u>
Deferred Charges	<u>\$ 55,304</u>	<u>\$ 57,580</u>
	<u>\$ 1,976,026</u>	<u>\$ 1,997,420</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 24,730	\$ 24,435
Accumulated Deficits	(192,461)	(244,860)
	<u>\$ (167,731)</u>	<u>\$ (220,425)</u>
LONG - TERM DEBT		
Note Payable - GCEC	\$ 251,266	\$ 276,166
CFC Mortgage Notes Less Current Maturities	1,242,219	1,290,743
	<u>\$ 1,493,485</u>	<u>\$ 1,566,909</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 72,600	\$ 67,527
Accounts Payable - Other	52,707	68,559
Accounts Payable - Graham County Electric Cooperative	264,844	278,519
Accounts Payable - Water Department	136,142	148,850
Overbilled Consumers Fuel Cost	24,006	
Accrued Taxes	40,550	29,922
Customers' Deposits and Prepayments	52,785	51,915
Accrued Interest	6,638	5,644
Total Current Liabilities	<u>\$ 650,272</u>	<u>\$ 650,936</u>
	<u>\$ 1,976,026</u>	<u>\$ 1,997,420</u>

**GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT**

Schedule 2

**STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000**

	<u>September 30,</u>		<u>Increase (Decrease)</u>
	<u>2001</u>	<u>2000</u>	
OPERATING REVENUES			
Residential	\$ 2,642,587	\$ 1,439,214	\$ 1,203,373
Irrigation	17,263	21,759	(4,496)
Commercial and Industrial	784,943	394,027	390,916
Fuel Cost Overbilled	(148,947)	197,918	(346,865)
Other Operating Revenues	25,922	23,930	1,992
Total Operating Revenues	\$ <u>3,321,768</u>	\$ <u>2,076,848</u>	\$ <u>1,244,920</u>
OPERATING EXPENSES			
Purchased Gas	\$ 2,232,832	\$ 1,064,742	\$ 1,168,090
Operations	215,308	188,980	26,328
Maintenance	216,549	243,690	(27,141)
Customer Accounts	193,997	191,061	2,936
Administrative and General	179,087	184,535	(5,448)
Depreciation and Amortization	91,918	87,844	4,074
Other Interest	67,219	47,370	19,849
Total Operating Expenses	\$ <u>3,196,910</u>	\$ <u>2,008,222</u>	\$ <u>1,188,688</u>
OPERATING MARGINS - Before Fixed Charges	\$ 124,858	\$ 68,626	\$ 56,232
FIXED CHARGES			
Interest on Long-Term Debt	<u>95,143</u>	<u>97,899</u>	<u>(2,756)</u>
OPERATING MARGINS (DEFICITS) - After Fixed Charges	\$ 29,715	\$ (29,273)	\$ 58,988
Capital Credits	<u>9,258</u>	<u>8,845</u>	<u>413</u>
NET OPERATING MARGINS (DEFICITS)	\$ 38,973	\$ (20,428)	\$ 59,401
NONOPERATING MARGINS			
Interest	<u>13,426</u>	<u>3,111</u>	<u>10,315</u>
NET MARGINS (DEFICITS)	\$ 52,399	\$ (17,317)	\$ <u>69,716</u>
ACCUMULATED DEFICITS - BEGINNING OF YEAR	<u>(244,860)</u>	<u>(227,543)</u>	
ACCUMULATED DEFICITS - END OF YEAR	\$ <u>(192,461)</u>	\$ <u>(244,860)</u>	

**GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT**

Schedule 3

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000**

	September 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Deficits)	\$ 52,399	\$ (17,317)
Adjustments to Reconcile Net Margins (Deficits) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	92,524	88,451
Capital Credits - Noncash	(9,258)	(8,845)
Deferred Charges	2,276	12,969
Under/Overbilled Fuel Cost - Net	135,836	(199,832)
Accounts Receivable	(42,765)	(6,853)
Inventories and Other Current Assets	(20,167)	3,986
Payables and Accrued Expenses	(3,360)	35,834
Net Advances from (Payments to) - Water Department	(12,708)	119,695
Net Advances from (Payments to) - GCEC	(13,675)	212,743
Net Cash Provided by Operating Activities	\$ 181,102	\$ 240,831
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (122,853)	\$ (161,893)
Investments in Associated Organizations	9,807	9,249
Net Cash Used in Investing Activities	\$ (113,046)	\$ (152,644)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (45,224)	\$ (41,990)
Payments on Long-Term Debt - Graham County Electric Cooperative, Inc.	(23,127)	(46,247)
Memberships	295	50
Net Cash Used in Financing Activities	\$ (68,056)	\$ (88,187)
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 148,747	\$ 129,590
Federal Income Tax	\$ 0	\$ 0

-18-
GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 4

BALANCE SHEET
SEPTEMBER 30, 2001 AND 2000

ASSETS

	September 30,	
	2001	2000
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,711,687	\$ 1,702,689
Construction Work in Progress	124,625	29,351
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 2,446,480</u>	<u>\$ 2,342,208</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>1,050,808</u>	<u>956,790</u>
	<u>\$ 1,395,672</u>	<u>\$ 1,385,418</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	<u>\$ 137,774</u>	<u>\$ 140,233</u>
CURRENT ASSETS		
Cash - General	\$ 18,383	\$ 1,518
Accounts Receivable - Customers (Less allowance for uncollectibles of \$5,170 in 2001 and \$5,885 in 2000)	18,882	15,567
Accounts Receivable - Gas Department	136,142	148,850
Accounts Receivable - Graham County Electric Cooperative, Inc.	23,804	1,612
Materials and Supplies	9,231	22,357
Other Current and Accrued Assets	6,435	6,435
Total Current Assets	<u>\$ 206,442</u>	<u>\$ 196,339</u>
DEFERRED CHARGES	<u>\$ 40,906</u>	<u>\$ 44,341</u>
	<u>\$ 1,780,794</u>	<u>\$ 1,766,331</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	48,412	52,728
	<u>\$ 50,912</u>	<u>\$ 55,228</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 909,069	\$ 949,308
AEPCO - Notes Payable Less Current Maturities	177,833	198,000
USDA Rural Development Notes Less Current Maturities	534,249	444,674
	<u>\$ 1,621,151</u>	<u>\$ 1,591,982</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 66,730	\$ 64,197
Accounts Payable - Other	7,110	25,327
Accounts Payable - Graham County Electric Cooperative, Inc.	2,013	4,854
Accrued Taxes	22,717	18,822
Customers' Deposits and Prepayments	8,500	4,485
Accrued Interest	1,661	1,436
Total Current Liabilities	<u>\$ 108,731</u>	<u>\$ 119,121</u>
	<u>\$ 1,780,794</u>	<u>\$ 1,766,331</u>

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

	September 30,		Increase (Decrease)
	2001	2000	
OPERATING REVENUES			
Residential	\$ 427,231	\$ 445,031	\$ (17,800)
Commercial and Industrial	41,444	41,095	349
Sales for Resale	27,124	25,490	1,634
Other Operating Revenues	2,470	2,000	470
Total Operating Revenues	\$ 498,269	\$ 513,616	\$ (15,347)
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 17,476	\$ 15,866	\$ 1,610
Operations	66,844	56,742	10,102
Maintenance	86,990	82,142	4,848
Customer Accounts	39,053	38,233	820
Administrative and General	67,795	79,282	(11,487)
Depreciation and Amortization	94,019	93,225	794
Other Interest	4,669	3,710	959
Total Operating Expenses	\$ 376,846	\$ 369,200	\$ 7,646
OPERATING MARGINS - Before Fixed Charges	\$ 121,423	\$ 144,416	\$ (22,993)
FIXED CHARGES			
Interest on Long-Term Debt	93,226	94,016	(790)
OPERATING MARGINS - After Fixed Charges	\$ 28,197	\$ 50,400	\$ (22,203)
Capital Credits	8,210	7,844	366
NET OPERATING MARGINS	\$ 36,407	\$ 58,244	\$ (21,837)
NONOPERATING MARGINS			
Interest	5,947	7,881	(1,934)
NET MARGINS	\$ 42,354	\$ 66,125	\$ (23,771)
ACCUMULATED MARGINS - BEGINNING OF YEAR	52,728	21,968	
PATRONAGE CAPITAL RETIRED	(46,670)	(35,365)	
ACCUMULATED MARGINS - END OF YEAR	\$ 48,412	\$ 52,728	

**GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT**

Schedule 6

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000**

	September 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 42,354	\$ 66,125
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	94,019	93,225
Capital Credits - Noncash	(8,210)	(7,844)
Deferred Charges	3,435	3,528
Accounts Receivable	(3,315)	(2,697)
Inventories and Other Current Assets	(4,243)	4,424
Payables and Accrued Expenses	(10,082)	28,504
Net Advances from (Payments to) - Gas Department	12,708	(119,695)
Net Advances from (Payments to) - GCEC	(1,229)	(387)
Net Cash Provided by Operating Activities	\$ 125,437	\$ 65,183
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (104,273)	\$ (45,624)
Investments in Associated Organizations	10,669	10,173
Net Cash Used in Investing Activities	\$ (93,604)	\$ (35,451)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Note Payable from AEPCO	\$	\$ 46,049
Payments on Note Payable to AEPCO	(20,167)	
Payments on Long-Term Debt to CFC	(37,439)	(34,761)
Advances on Long-Term Debt from USDA	95,000	
Payments on Long-Term Debt to USDA	(5,692)	(5,655)
Payment of Capital Credits	(46,670)	(35,365)
Net Cash Used in Financing Activities	\$ (14,968)	\$ (29,732)
INCREASE IN CASH	\$ 16,865	\$ 0
CASH - BEGINNING OF YEAR	1,518	1,518
CASH - END OF YEAR	\$ 18,383	\$ 1,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 90,546	\$ 92,935
Federal Income Tax	\$ 0	\$ 0

COMPLIANCE AND INTERNAL CONTROL SECTION

FOR LIAISON WITH THE INTEGRATED AREA, U.S.A.
FOR THE PUBLIC RELATIONS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING
AUDITS OF CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2001, and have issued our report thereon dated October 25, 2001.

Our comments and recommendations, if any, have been detailed in this letter and the Report on Internal Controls. No other written communications with respect to comments or recommendations have been provided.

Accounting Records - The corporation's accounting records were considered adequate in all material respects. The records were maintained in a manner that provides for fair distribution of costs to construction, retirement, maintenance, and other expense accounts.

Material Control - The results of the physical inventories of materials and supplies are summarized below.

	<u>Gas</u>	<u>Water</u>
Gross Shortages	\$ (4,453)	\$ (1,833)
Gross Overages	<u>3,204</u>	<u>703</u>
Net Shortages	<u>\$ (1,249)</u>	<u>\$ (1,130)</u>

CFC Loan Fund Advances - During the period of this audit, the corporation did not receive any additional loan fund advances from CFC on loans controlled by the CFC Electric Mortgage and Loan Agreement.

Service Contracts - There were no material service contracts in effect at the end of the year except for the management and operations agreement with Graham County Electric Cooperative, Inc., previously noted in the Notes to the Financial Statements.

Income Tax Status - More than 85% of the income is collected from the cooperative's members. The cooperative has obtained exemption from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code and Internal Revenue Form 990 is being filed.

Related Party Transactions - Related party transactions are discussed in Note 12 to the financial statements.

Plant Acquisition Adjustments - In connection with the acquisition of gas and water utility plant, in 1989 an acquisition adjustment was recorded representing the excess of the purchase price over the book value of the acquired property. This adjustment is being amortized over a twenty-five year period with thirteen years remaining in the amortization period.

Deposits – All cash deposits in banks and savings and loan associations are in institutions insured by an agency of the federal government.

Deferred Charges – See Note 5 to the financial statements.

Retirement of Patronage Capital – During the years ended September 30, 2001 and 2000, the cooperative retired patronage capital – water department of \$46,670 and \$35,365. The retirements were non-compliant with the CFC mortgage agreement.

Balinger, Segars, Gilbert & Mass LLP

Certified Public Accountants

October 25, 2001

Balinger, Segars, Gilbert & Mass LLP
CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

Independent Auditors' Report

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2001, and have issued our report thereon dated October 25, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 25, 2001

-24-
BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

Compliance

We have audited the compliance of Graham County Utilities, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2001. Graham County Utilities, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Graham County Utilities, Inc.'s management. Our responsibility is to express an opinion on Graham County Utilities, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graham County Utilities, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Graham County Utilities, Inc.'s compliance with those requirements.

In our opinion, Graham County Utilities, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2001.

Internal Control Over Compliance

The management of Graham County Utilities, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

~~This report is intended for the information of the Board of Directors, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.~~

Bolinger, Legars, Gilbert & Moss LLP

Certified Public Accountants

October 25, 2001

GRAHAM COUNTY UTILITIES, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2001**

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unqualified.
2. Reportable conditions: None.
3. None of the reportable conditions above are considered to be material weaknesses.
4. Noncompliance which is material to the financial statements: None.
5. ~~Type of auditor's report on compliance for major programs: Unqualified.~~
6. Did the audit disclose findings which are required to be reported under Sec. ___ 510(a): No.
7. Major programs include:
 - Rural Development Grant and Loan
 - Water and Waste Disposal Systems for Rural Development – CFDA 10.418
8. Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
9. Low risk auditee: The cooperative was not classified as a low risk auditee in the context of OMB Circular A-133.

II. Findings Related to the Financial Statements

The audit disclosed no findings required to be reported.

III. Findings and Questioned Costs Related to the Federal Awards

The audit disclosed no findings required to be reported.

-27-

GRAHAM COUNTY UTILITIES, INC.

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2001**

N/A – No applicable findings to correct.

-28-

GRAHAM COUNTY UTILITIES, INC.

**SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2001**

N/A – No prior audit findings.

GRAHAM COUNTY UTILITIES, INC.

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2001

Case Number	Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Current Year Expenditures	Outstanding Loan Balance
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
02-05-860626208	Rural Development - Water and Waste Disposal Systems for Rural Communities - Grant	10.760	\$ 378,712	\$ 0
02-05-860626208	Rural Development - Water and Waste Disposal Systems for Rural Communities - Loan	10.760	\$ 95,000	\$ 0
TOTAL DEPARTMENT OF AGRICULTURE			\$ 473,712	\$ 0
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 473,712	\$ 0

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOULEVARD, GILBERT, ARIZONA 85131
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.
Pima, Arizona

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	2
Statement of Income and Accumulated Margins (Deficits)	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Accompanying Information	
Independent Auditors' Report on Accompanying Information	13
Individual Department - Financial Statements	
Gas Department	
Balance Sheet	14
Statement of Income and Accumulated Margins (Deficits)	15
Statement of Cash Flows	16
Water Department	
Balance Sheet	17
Statement of Income and Accumulated Margins (Deficits)	18
Statement of Cash Flows	19
Compliance and Internal Control Section	
Independent Auditors' Comment on Certain Matters for CFC Borrowers	20
Independent Auditors' Report: Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

INDEPENDENT AUDITORS' REPORT

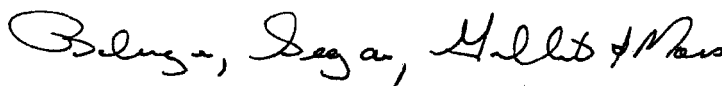
Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheet of Graham County Utilities, Inc., as of September 30, 2000 and 1999, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2000, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Certified Public Accountants

October 26, 2000

GRAHAM COUNTY UTILITIES, INC.

BALANCE SHEET
SEPTEMBER 30, 2000
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 1999

ASSETS

	September 30,	
	2000	1999
UTILITY PLANT		
Plant in Service	\$ 4,105,042	\$ 3,928,338
Construction Work in Progress	45,906	15,093
Plant Acquisition Adjustment	1,025,652	1,025,652
	\$ 5,176,600	\$ 4,969,083
Less: Accumulated Provision for Depreciation and Amortization	2,262,072	2,080,396
	\$ 2,914,528	\$ 2,888,687
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 300,382	\$ 303,115
CURRENT ASSETS		
Cash - General	\$ 1,518	\$ 1,518
Accounts Receivable (Less allowance for uncollectibles of \$13,313 in 2000 and \$13,128 in 1999)	66,108	56,558
Underbilled Consumers Fuel Cost	111,830	
Accounts Receivable - GCEC	1,612	1,225
Materials and Supplies	91,022	96,034
Other Current and Accrued Assets	25,980	29,379
Total Current Assets	\$ 298,070	\$ 184,714
DEFERRED CHARGES	\$ 101,921	\$ 118,418
	\$ 3,614,901	\$ 3,494,934

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 26,935	\$ 26,885
Accumulated Deficits	(192,132)	(205,575)
	\$ (165,197)	\$ (178,690)
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 2,240,051	\$ 2,322,602
Note Payable - AEPCO - Advances to Date	198,000	151,951
Note Payable - GCEC Less Current Maturities	276,166	247,900
USDA Rural Development Note Payable Less Current Maturities	444,674	450,626
	\$ 3,158,891	\$ 3,173,079
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 131,724	\$ 200,140
Accounts Payable - GCEC	266,979	54,236
Accounts Payable - Other	93,886	46,374
Overbilled Consumers Fuel Cost		88,002
Customers' Deposits and Prepayments	56,400	53,237
Accrued Taxes	48,744	45,057
Accrued Interest	7,080	4,669
Accrued Payroll	16,394	8,830
Total Current Liabilities	\$ 621,207	\$ 500,545
	\$ 3,614,901	\$ 3,494,934

See accompanying notes to financial statements

BOYD, BOWEN, GIBSON & MOORE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEAR ENDED SEPTEMBER 30, 2000
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1999

	September 30,	
	2000	1999
OPERATING REVENUES	\$ 2,590,464	\$ 2,397,369
OPERATING EXPENSES		
Purchased Gas	\$ 1,064,742	\$ 885,186
Power for Pumping	15,866	14,346
Operations	245,722	201,715
Maintenance	325,832	244,324
Consumer Accounts	229,294	223,278
Administrative and General	263,817	247,184
Depreciation and Amortization	181,069	165,351
Other Interest	51,080	44,702
Total Operating Expenses	\$ 2,377,422	\$ 2,026,086
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 213,042	\$ 371,283
Interest on Long-Term Debt	191,915	190,521
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 21,127	\$ 180,762
Capital Credits	16,689	17,226
NET OPERATING MARGINS	\$ 37,816	\$ 197,988
NONOPERATING MARGINS		
Interest	10,992	926
NET MARGINS	\$ 48,808	\$ 198,914
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(205,575)	(404,489)
PATRONAGE CAPITAL RETIRED - WATER DEPARTMENT	(35,365)	
ACCUMULATED DEFICITS - END OF YEAR	\$ (192,132)	\$ (205,575)

See accompanying notes to financial statements

BRIANNE HOWARD GILBERT & DAVID L. LEE
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2000
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1999

	September 30,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 48,808	\$ 198,914
Adjustments to Reconcile Net Margins to		
Net Cash Provided by Operating Activities		
Depreciation and Amortization	181,676	165,959
Capital Credits	(16,689)	(17,226)
Underbilled Fuel Cost	(199,832)	25,918
Deferred Charges	16,497	23,395
Accounts Receivable	(9,550)	2,517
Inventories and Other Current Assets	8,410	(16,744)
Payables and Accrued Expenses	64,338	(73,309)
Net Advances - GCEC	212,356	(15,424)
Net Cash Provided by Operating Activities	\$ 306,014	\$ 294,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (207,517)	\$ (316,798)
CFC Patronage Capital Refunds	19,422	15,160
Net Cash Used in Investing Activities	\$ (188,095)	\$ (301,638)
CASH FLOWS FROM FINANCING ACTIVITIES		
AEPCO Note Proceeds	\$ 46,049	\$ 173,951
Payments on Long-Term Debt to CFC	(76,751)	(71,264)
Payments on Long-Term Debt to GCEC	(46,247)	(90,695)
Payment - USDA-RD	(5,655)	(5,024)
Payment of Capital Credits	(35,365)	
Memberships	50	670
Net Cash Provided by (Used in) Financing Activities	\$ (117,919)	\$ 7,638
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	1,518	1,518
CASH - END OF YEAR	\$ 1,518	\$ 1,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on Long-Term Debt	\$ 222,525	\$ 190,439
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements

WELLS, BROWN, GILBERT & MOY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2000 and 1999, was estimated to be \$46,316 and \$56,742 in the gas department and \$34,742 and \$36,873 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2000 and 1999, the cooperative had underbillings of \$111,830 and overbillings of \$88,002, respectively.

Group Concentration of Credit Risk

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of 6%. Deposits on hand totaled \$56,400 and \$53,237 at September 30, 2000 and 1999, respectively.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2000			September 30, 1999
	Gas	Water	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,228
Production		388,665	388,665	388,665
Transmission		894,497	894,497	894,497
Distribution	2,277,949	207,434	2,485,383	2,413,216
General	80,791	158,378	239,169	134,634
Land	1,091	16,007	17,098	17,098
Total Plant in Service	\$ 2,402,353	\$ 1,702,689	\$ 4,105,042	\$ 3,928,338
Construction Work in Progress	16,555	29,351	45,906	15,093
Electric Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 2,834,392	\$ 2,342,208	\$ 5,176,600	\$ 4,969,083

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas	Water
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.8%	
Services	4.1%	
Meters - Regulators	2.6%	
Structures	2.3%	
General	6.7%-13.3%	10%-16.67%

Depreciation accruals charged to expense for the periods ended September 30, 2000 and 1999 totaled \$140,043 and \$124,933, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2000 are summarized as follows:

	<u>Gas</u>	<u>Water</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 166,194	\$ 244,067
Current Year	16,619	24,407
	<u>\$ 182,813</u>	<u>\$ 268,474</u>
Unamortized Adjustment	<u>\$ 232,871</u>	<u>\$ 341,694</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2000</u>	<u>1999</u>
<u>CFC</u>		
Capital Term Certificates	\$ 198,024	\$ 199,438
Patronage Capital	97,800	99,119
Memberships	1,000	1,000
	<u>\$ 296,824</u>	<u>\$ 299,557</u>
<u>GCEC</u>		
Patronage Capital	\$ 3,558	\$ 3,558
	<u>\$ 300,382</u>	<u>\$ 303,115</u>

5. Deferred Charges

Deferred charges consisted of the following:

	<u>September 30,</u>	
	<u>2000</u>	<u>1999</u>
<u>Gas</u>		
Rate Filing Costs - In Progress	\$ 7,540	\$ 16,103
Clearing Accounts	85	624
Unamortized Debt Expense	49,955	53,822
	<u>\$ 57,580</u>	<u>\$ 70,549</u>
<u>Water</u>		
Rate Filing Costs - 1993 Case	\$	\$
Unamortized Debt Expense	44,300	47,729
Clearing Accounts	41	140
	<u>\$ 44,341</u>	<u>\$ 47,869</u>
	<u>\$ 101,921</u>	<u>\$ 118,418</u>

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for fifteen years with a conversion fee of \$109,457. Amortization expense for the year ended September 30, 2000 is \$7,297.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2000	1999
Class A Memberships		
Graham County Electric Cooperative, Inc.,		
entitled to 1 vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric		
Cooperative, Inc.; \$5 membership fee, entitled		
to one vote per membership	17,300	17,335
Class C Memberships		
All others who receive service; \$5 membership		
fee, entitled to one vote per membership	4,635	4,550
	<u>\$ 26,935</u>	<u>\$ 26,885</u>

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

	Gas	Water	Total
Calendar Year			
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,042)	(28,602)	(200,644)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
Nine Months - 2000	(10,278)	52,645	42,367
	<u>\$ (244,860)</u>	<u>\$ 88,093</u>	<u>\$ (156,767)</u>
Patronage Capital Retired		(35,365)	(35,365)
	<u>\$ (244,860)</u>	<u>\$ 52,728</u>	<u>\$ (192,132)</u>

-10-
GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2000, the water department retired patronage capital in the amount of \$35,365.

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014:

	<u>September 30,</u>	
	<u>2000</u>	<u>1999</u>
Variable (7.10% - 2000 and 1999)	\$ 1,352,522	\$ 1,407,279
Variable (7.6% - 2000; 6.10% - 1999)	443,964	459,397
Fixed – 7.450%	<u>524,665</u>	<u>531,226</u>
	\$ 2,321,151	\$ 2,397,902
Less: Current Maturities	<u>81,100</u>	<u>75,300</u>
	<u>\$ 2,240,051</u>	<u>\$ 2,322,602</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$67,757. As of September 30, 2000, annual maturities of long-term debt due CFC for the next five years are as follows:

2001	\$ 81,100
2002	87,100
2003	93,600
2004	100,500
2005	108,000

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	<u>September 30,</u>	
	<u>2000</u>	<u>1999</u>
5% Note Maturing May 31, 2033	\$ 165,373	\$ 167,464
Less: Current Maturities	<u>2,245</u>	<u>2,100</u>
	\$ 163,128	\$ 165,364
4.5% Note Maturing November 30, 2036	\$ 284,801	\$ 288,362
Less: Current Maturities	<u>3,255</u>	<u>3,100</u>
	\$ 281,546	\$ 285,262
	<u>\$ 444,674</u>	<u>\$ 450,626</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$2,220. As of September 30, 2000, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2001	\$ 5,500
2002	5,800
2003	6,000
2004	6,300
2005	6,600

10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over ten years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2000 is \$299,293. Annual maturities due to Graham County Electric Cooperative are as follows:

2001	\$ 23,127
2002	24,900
2003	26,800
2004	29,856
2005	31,065

11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan is \$220,000, payable in monthly payments of \$1,833 for 120 months. The cooperative is awaiting the final drawdown before repayments will begin. The balance at September 30, 2000 is \$220,000. Annual maturities due to AEPCO are as follows:

2001	\$ 22,000
2002	22,000
2003	22,000
2004	22,000
2005	22,000

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

Intercompany balances between the two cooperatives are summarized as follows:

	<u>September 30.</u>	
	<u>2000</u>	<u>1999</u>
Graham County Utilities, Inc.		
Accounts Receivable	\$ 1,612	\$ 1,225
Accounts Payable	<u>(266,979)</u>	<u>(54,236)</u>
Net Due to Affiliated Cooperative	<u>\$ (265,367)</u>	<u>\$ (53,011)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	<u>\$ 265,367</u>	<u>\$ 53,011</u>
Net Due from Affiliated Cooperative	<u>\$ 265,367</u>	<u>\$ 53,011</u>

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

14. Rate Matters

The cooperative, with the approval of the Arizona Corporation Commission, has instituted new rates for the gas department effective December 1997 and new rates for the water department effective September 1998.

ACCOMPANYING INFORMATION

INTERVIEW, MICHAEL, JOSEPH & MARY, INC.
IDENTIFIED PUBLIC ACCOUNTANT

GRAHAM COUNTY UTILITIES, INC.

GAS DEPARTMENT
BALANCE SHEET
SEPTEMBER 30, 2000 AND 1999

ASSETS

	September 30,	
	2000	1999
UTILITY PLANT		
Plant in Service	\$ 2,402,353	\$ 2,243,720
Construction Work in Progress	16,555	13,295
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 2,834,392</u>	<u>\$ 2,672,499</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>1,305,282</u>	<u>1,216,831</u>
	<u>\$ 1,529,110</u>	<u>\$ 1,455,668</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	<u>\$ 160,149</u>	<u>\$ 160,553</u>
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$7,428 in 2000 and \$8,023 in 1999)	\$ 50,541	\$ 43,688
Underbilled Consumers Fuel Cost	111,830	
Materials and Supplies	68,665	70,209
Other Current and Accrued Assets	19,545	21,987
Total Current Assets	<u>\$ 250,581</u>	<u>\$ 135,884</u>
Deferred Charges	<u>\$ 57,580</u>	<u>\$ 70,549</u>
	<u>\$ 1,997,420</u>	<u>\$ 1,822,654</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 24,435	\$ 24,385
Accumulated Deficits	(244,860)	(227,543)
	<u>\$ (220,425)</u>	<u>\$ (203,158)</u>
LONG -TERM DEBT		
Note Payable - GCEC	\$ 276,166	\$ 247,900
CFC Mortgage Notes Less Current Maturities	1,290,743	1,335,933
	<u>\$ 1,566,909</u>	<u>\$ 1,583,833</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 67,527	\$ 138,840
Accounts Payable - Other	68,559	43,245
Accounts Payable - GCEC	266,979	54,236
Accounts Payable - Water Department	148,850	29,155
Overbilled Consumers Fuel Cost		88,002
Accrued Taxes	29,922	27,469
Customers' Deposits and Prepayments	51,915	49,437
Accrued Interest	5,644	4,401
Accrued Payroll	11,540	7,194
Total Current Liabilities	<u>\$ 650,936</u>	<u>\$ 441,979</u>
	<u>\$ 1,997,420</u>	<u>\$ 1,822,654</u>

GRAHAM COUNTY UTILITIES, INC.

GAS DEPARTMENT
STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

	September 30,		Increase (Decrease)
	2000	1999	
OPERATING REVENUES			
Residential	\$ 1,439,214	\$ 1,482,022	\$ (42,808)
Irrigation	21,759	18,538	3,221
Commercial and Industrial	394,027	411,146	(17,119)
Fuel Cost Overbilled	197,918	(24,569)	222,487
Other Operating Revenues	23,930	24,060	(130)
Total Operating Revenues	\$ 2,076,848	\$ 1,911,197	\$ 165,651
OPERATING EXPENSES			
Purchased Gas	\$ 1,064,742	\$ 885,186	\$ 179,556
Operations	188,980	160,982	27,998
Maintenance	243,690	157,153	86,537
Customer Accounts	191,061	184,484	6,577
Administrative and General	184,535	178,651	5,884
Depreciation and Amortization	87,844	82,225	5,619
Other Interest	47,370	39,061	8,309
Total Operating Expenses	\$ 2,008,222	\$ 1,687,742	\$ 320,480
OPERATING MARGINS - Before Fixed Charges	\$ 68,626	\$ 223,455	\$ (154,829)
FIXED CHARGES			
Interest on Long-Term Debt	97,899	97,449	450
OPERATING MARGINS (DEFICITS) - After Fixed Charges	\$ (29,273)	\$ 126,006	\$ (155,279)
Capital Credits	8,845	9,130	(285)
NET OPERATING MARGINS (DEFICITS)	\$ (20,428)	\$ 135,136	\$ (155,564)
NONOPERATING MARGINS			
Interest and Investment Income	3,111	523	2,588
NET MARGINS (DEFICITS)	\$ (17,317)	\$ 135,659	\$ (152,976)
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(227,543)	(363,202)	
ACCUMULATED DEFICITS - END OF YEAR	\$ (244,860)	\$ (227,543)	

**GAS DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999**

	September 30,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Deficits)	\$ (17,317)	\$ 135,659
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	88,451	82,833
Capital Credits - Noncash	(8,845)	(9,130)
Deferred Charges	12,969	17,349
Overbilled Fuel Cost	(199,832)	25,918
Accounts Receivable	(6,853)	2,949
Inventories and Other Current Assets	3,986	(14,959)
Payables and Accrued Expenses	35,834	(15,709)
Advances - Water Department	119,695	29,155
Advances - GCEC	212,743	43,389
Net Cash Provided by Operating Activities	<u>\$ 240,831</u>	<u>\$ 297,454</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant/Purchase of Property	\$ (161,893)	\$ (175,429)
Patronage Capital Retirement - CFC	9,249	6,990
Net Cash Used in Investing Activities	<u>\$ (152,644)</u>	<u>\$ (168,439)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (41,990)	\$ (38,990)
Payments on Long-Term Debt - GCEC	(46,247)	(90,695)
Memberships	50	670
Net Cash Used in Financing Activities	<u>\$ (88,187)</u>	<u>\$ (129,015)</u>
INCREASE (DECREASE) IN CASH	<u>\$ (0)</u>	<u>\$ 0</u>
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	<u>\$ 129,590</u>	<u>\$ 97,449</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

GRAHAM COUNTY UTILITIES, INC.

WATER DEPARTMENT
BALANCE SHEET
SEPTEMBER 30, 2000 AND 1999

ASSETS

	September 30,	
	2000	1999
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,702,689	\$ 1,684,618
Construction Work in Progress	29,351	1,798
Plant Acquisition Adjustment	610,168	610,168
	\$ 2,342,208	\$ 2,296,584
Less: Accumulated Provision for Depreciation and Amortization	956,790	863,565
	\$ 1,385,418	\$ 1,433,019
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 140,233	\$ 142,562
CURRENT ASSETS		
Cash - General	\$ 1,518	\$ 1,518
Accounts Receivable - Customers (Less allowance for uncollectibles of \$5,885 in 2000 and \$5,105 in 1999)	15,567	12,870
Accounts Receivable - Gas Department	148,850	29,155
Accounts Receivable - GCEC	1,612	1,225
Materials and Supplies	22,357	25,825
Other Current and Accrued Assets	6,435	7,392
Total Current Assets	\$ 196,339	\$ 77,985
DEFERRED CHARGES	\$ 44,341	\$ 47,869
	\$ 1,766,331	\$ 1,701,435

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	52,728	21,968
	\$ 55,228	\$ 24,468
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 949,308	\$ 986,669
AEPKO - Notes Payable - Advances to Date	198,000	151,951
USDA Rural Development Notes Less Current Maturities	444,674	450,626
	\$ 1,591,982	\$ 1,589,246
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 64,197	\$ 61,300
Accounts Payable - Other	25,327	3,129
Accrued Taxes	18,822	17,588
Customers' Deposits and Prepayments	4,485	3,800
Accrued Interest	1,436	268
Accrued Payroll	4,854	1,636
Total Current Liabilities	\$ 119,121	\$ 87,721
	\$ 1,766,331	\$ 1,701,435

GRAHAM COUNTY UTILITIES, INC.

WATER DEPARTMENT
STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

	September 30,		Increase (Decrease)
	2000	1999	
OPERATING REVENUES			
Residential	\$ 445,031	\$ 422,555	\$ 22,476
Commercial and Industrial	41,095	39,415	1,680
Sales for Resale	25,490	22,172	3,318
Other Operating Revenues	2,000	2,030	(30)
Total Operating Revenues	\$ 513,616	\$ 486,172	\$ 27,444
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 15,866	\$ 14,346	\$ 1,520
Operations	56,742	40,733	16,009
Maintenance	82,142	87,171	(5,029)
Customer Accounts	38,233	38,794	(561)
Administrative and General	79,282	68,533	10,749
Depreciation and Amortization	93,225	83,126	10,099
Other Interest	3,710	5,641	(1,931)
Total Operating Expenses	\$ 369,200	\$ 338,344	\$ 30,856
OPERATING MARGINS - Before Fixed Charges	\$ 144,416	\$ 147,828	\$ (3,412)
FIXED CHARGES			
Interest on Long-Term Debt	94,016	93,072	944
OPERATING MARGINS - After Fixed Charges	\$ 50,400	\$ 54,756	\$ (4,356)
Capital Credits	7,844	8,096	(252)
NET OPERATING MARGINS	\$ 58,244	\$ 62,852	\$ (4,608)
NONOPERATING MARGINS			
Interest	7,881	403	7,478
NET MARGINS	\$ 66,125	\$ 63,255	\$ 2,870
ACCUMULATED MARGINS (DEFICITS) - BEGINNING OF YEAR	21,968	(41,287)	
PATRONAGE CAPITAL RETIRED	(35,365)		
ACCUMULATED MARGINS - END OF YEAR	\$ 52,728	\$ 21,968	

GRAHAM COUNTY UTILITIES, INC.

WATER DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

	September 30,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 64,566	\$ 63,255
Adjustments to Reconcile Net Margins to Net Cash Provided by (Used by) Operating Activities		
Depreciation and Amortization	93,225	83,126
Capital Credits - Noncash	(7,844)	(8,096)
Deferred Charges	3,356	6,046
Accounts Receivable	(2,697)	(432)
Inventories and Other Current Assets	4,424	(1,785)
Payables and Accrued Expenses	28,852	(57,600)
Advances - Gas Department	(119,695)	(29,155)
Advances GCEC	1,225	(58,813)
Net Cash Provided by (Used in) Operating Activities	\$ 65,412	\$ (3,454)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (45,853)	\$ (141,369)
CFC Patronage Capital Retirement	10,173	8,170
Net Cash Used in Investing Activities	\$ (35,680)	\$ (133,199)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt - AEPCO	\$ 46,049	\$ 173,951
Payments on Long-Term Debt to CFC	(34,761)	(32,274)
Payments - Other Long-Term Debt	(5,655)	(5,024)
Payment of Capital Credits	(35,365)	
Net Cash Provided by (Used in) Financing Activities	\$ (29,732)	\$ 136,653
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	1,518	1,518
CASH - END OF YEAR	\$ 1,518	\$ 1,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 92,935	\$ 92,990
Federal Income Tax	\$ 0	\$ 0

COMPLIANCE AND INTERNAL CONTROL SECTION

BOYANOS, BIGNARDI, GUARDIA & MORI, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1023 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

**INDEPENDENT AUDITORS' COMMENT ON CERTAIN
MATTERS FOR CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc., for the years ended September 30, 2000 and 1999, and have issued our report thereon dated October 26, 2000.

Our comments and recommendations, if any, have been detailed in this letter and the Report on Internal Controls. No other written communications with respect to comments or recommendations have been provided.

Accounting Records - The corporation's accounting records were considered adequate in all material respects. The records were maintained in a manner that provides for fair distribution of costs to construction, retirement, maintenance and other expense accounts.

Material Control - The results of the physical inventories of materials and supplies are summarized below.

	<u>Gas</u>	<u>Water</u>
Gross Shortages	\$ (2,906)	\$ (637)
Gross Overages	<u>7,721</u>	<u>4,548</u>
Net Overages	<u>\$ 4,815</u>	<u>\$ 3,911</u>

CFC Loan Fund Advances - During the period of this audit, the corporation did not receive any additional loan fund advances from CFC on loans controlled by the CFC Electric Mortgage and Loan Agreement.

Service Contracts - There were no material service contracts in effect at the end of the year except for the management and operations agreement with Graham County Electric Cooperative, Inc., previously noted in the Notes to the Financial Statements.

Income Tax Status - The corporation has obtained exemption from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Internal Revenue Form 990 is being filed.

Related Party Transactions - Related party transactions are discussed in Note 12 to the financial statements.

Plant Acquisition Adjustments - In connection with the acquisition of gas and water utility plant, in 1989 an acquisition adjustment was recorded representing the excess of the purchase price over the book value of the acquired property. This adjustment is being amortized over a twenty-five year period with sixteen years remaining in the amortization period.

Belanger, Segay, Hallett & Son

Certified Public Accountants

October 26, 2000

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

Independent Auditors' Report

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2000, and have issued our report thereon dated October 26, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

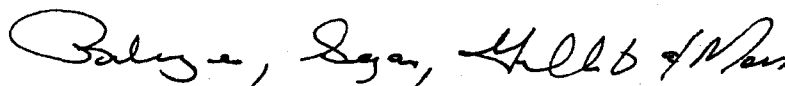
Compliance

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Certified Public Accountants

October 26, 2000

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

HODINOTER, SEGARRA, GILBERT & MOORE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.
Pima, Arizona

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

TABLE OF CONTENTS

	<u>Page</u> <u>No.</u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	2
Statement of Income and Accumulated Margins (Deficits)	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Accompanying Information	
Independent Auditors' Report on Accompanying Information	13
Individual Department - Financial Statements	
Gas Department	
Balance Sheet	14
Statement of Income and Accumulated Margins (Deficits)	15
Statement of Cash Flows	16
Water Department	
Balance Sheet	17
Statement of Income and Accumulated Margins (Deficits)	18
Statement of Cash Flows	19
Compliance and Internal Control Section	
Independent Auditors' Comment on Certain Matters for CFC Borrowers	20
Independent Auditors' Report: Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

INDEPENDENT AUDITORS' REPORT

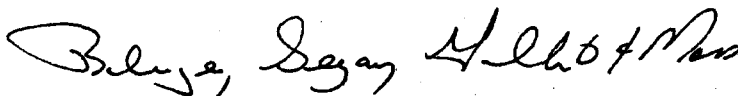
Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheet of Graham County Utilities, Inc., as of September 30, 1999 and 1998, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 1999, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and its compliance with certain provision of laws, regulations, contracts and grants.



Certified Public Accountants

October 28, 1999

-2-
GRAHAM COUNTY UTILITIES, INC.

BALANCE SHEET
SEPTEMBER 30, 1999
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 1998

ASSETS

	September 30,	
	1999	1998
UTILITY PLANT		
Plant in Service	\$ 3,928,338	\$ 3,519,131
Construction Work in Progress	15,093	107,505
Plant Acquisition Adjustment	1,025,652	1,025,652
	<u>\$ 4,969,083</u>	<u>\$ 4,652,288</u>
Less: Accumulated Provision for Depreciation and Amortization	2,080,396	1,914,438
	<u>\$ 2,888,687</u>	<u>\$ 2,737,850</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 303,115	\$ 301,049
CURRENT ASSETS		
Cash - General	\$ 1,518	\$ 1,518
Accounts Receivable (Less allowance for uncollectibles of \$13,128 in 1999 and \$8,025 in 1998)	56,558	59,075
Accounts Receivable - GCEC	1,225	
Materials and Supplies	96,034	78,356
Other Current and Accrued Assets	29,379	30,313
Total Current Assets	<u>\$ 184,714</u>	<u>\$ 169,262</u>
DEFERRED CHARGES	<u>\$ 118,418</u>	<u>\$ 141,813</u>
	<u>\$ 3,494,934</u>	<u>\$ 3,349,974</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 26,885	\$ 26,215
Accumulated Deficit	(205,575)	(404,489)
	<u>\$ (178,690)</u>	<u>\$ (378,274)</u>
LONG - TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 2,322,602	\$ 2,399,367
Note Payable - AEPCO - Advances to Date	151,951	
Note Payable - GCEC Less Current Maturities	247,900	345,540
USDA Rural Development Note Payable Less Current Maturities	450,626	455,826
	<u>\$ 3,173,079</u>	<u>\$ 3,200,733</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 200,140	\$ 165,520
Accounts Payable - GCEC	54,236	68,435
Accounts Payable - Other	46,374	100,423
Overbilled Consumers Fuel Cost	88,002	62,084
Customers' Deposits and Prepayments	53,237	75,112
Accrued Taxes	45,057	43,132
Accrued Interest	4,669	3,894
Accrued Payroll	8,830	8,915
Total Current Liabilities	<u>\$ 500,545</u>	<u>\$ 527,515</u>
	<u>\$ 3,494,934</u>	<u>\$ 3,349,974</u>

See accompanying notes to financial statements

HOUGHTON, BRIDGES, GILBERT & MOORE, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.

**STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEAR ENDED SEPTEMBER 30, 1999
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1998**

	September 30,	
	1999	1998
OPERATING REVENUES	\$ 2,397,369	\$ 2,406,569
OPERATING EXPENSES		
Purchased Gas	\$ 885,186	\$ 964,995
Power for Pumping	14,346	15,181
Operations	201,715	215,176
Maintenance	244,324	160,264
Consumer Accounts	223,278	227,379
Administrative and General	247,184	228,490
Depreciation and Amortization	165,351	154,729
Other Interest	44,702	40,576
Total Operating Expenses	\$ 2,026,086	\$ 2,006,790
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 371,283	\$ 399,779
Interest on Long-Term Debt	190,521	221,655
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 180,762	\$ 178,124
Capital Credits	17,226	24,531
NET OPERATING MARGINS	\$ 197,988	\$ 202,655
NONOPERATING MARGINS		
Interest	926	5,330
NET MARGINS	\$ 198,914	\$ 207,985
ACCUMULATED DEFICIT - BEGINNING OF YEAR	(404,489)	(612,474)
ACCUMULATED DEFICIT - END OF YEAR	\$ (205,575)	\$ (404,489)

See accompanying notes to financial statements

RODGER, MICHAEL, GILBERT & MOORE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

-4-
GRAHAM COUNTY UTILITIES, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 1999
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1998**

	September 30,	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 198,914	\$ 207,985
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	165,959	155,360
Capital Credits	(17,226)	(25,935)
Overbilled Fuel Cost	25,918	45,255
Deferred Charges	23,395	(99,886)
Deferred Credits		(65)
Accounts Receivable	2,517	68,406
Inventories and Other Current Assets	(16,744)	(7,004)
Payables and Accrued Expenses	(73,309)	62,583
Net Advances - GCEC	(15,424)	23,801
Net Cash Provided by Operating Activities	<u>\$ 294,000</u>	<u>\$ 430,500</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (316,798)	\$ (335,250)
CFC Patronage Capital Refunds	15,160	21,946
Net Cash Used in Investing Activities	<u>\$ (301,638)</u>	<u>\$ (313,304)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
AEPCO Note Proceeds	\$ 173,951	\$
Payments on Long-Term Debt to CFC	(71,264)	(56,892)
Payments on Long-Term Debt to GCEC	(90,695)	(52,782)
Payment - USDA-RD	(5,024)	(7,777)
Memberships	670	255
Net Cash Provided by (Used in) Financing Activities	<u>\$ 7,638</u>	<u>\$ (117,196)</u>
INCREASE (DECREASE) IN CASH	<u>\$ 0</u>	<u>\$ 0</u>
CASH - BEGINNING OF YEAR	<u>1,518</u>	<u>1,518</u>
CASH - END OF YEAR	<u><u>\$ 1,518</u></u>	<u><u>\$ 1,518</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on Long-Term Debt	<u>\$ 190,439</u>	<u>\$ 221,376</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements

HOLIMON, BERGANS, CHILBERT & MOORE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The cooperative accounts for assets, liabilities, income and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 1999 and 1998, was estimated to be \$56,742 and \$58,863 in the gas department and \$36,873 and \$39,900 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as advance billing - fuel cost and costs to be billed in the subsequent period are recorded as unbilled fuel cost. Overbillings amounted to \$88,002 and \$62,084 at September 30, 1999 and 1998, respectively.

Group Concentration of Credit Risk

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of 6%. Deposits on hand totaled \$53,237 and \$75,112 at September 30, 1999 and 1998, respectively.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Statement of Cash Flows

For the purposes of the statement of cash flows, the cooperative considers cash and temporary cash investments to be cash and cash equivalents.

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Federal Income Tax Status

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85 percent of income consisting of amounts received from members.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November, 1989. Original cost includes the cost of contracted services, direct labor, materials and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 1999			September 30, 1998
	Gas	Water	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,706	\$ 80,228	\$ 80,228
Production		388,665	388,665	387,022
Transmission		894,497	894,497	706,159
Distribution	2,119,316	293,900	2,413,216	2,202,908
General	80,791	53,843	134,634	125,716
Land	1,091	16,007	17,098	17,098
Total Plant in Service	\$ 2,243,720	\$ 1,684,618	\$ 3,928,338	\$ 3,519,131
Construction Work in Progress	13,295	1,798	15,093	107,505
Electric Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 2,672,499	\$ 2,296,584	\$ 4,969,083	\$ 4,652,288

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas	Water
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.8%	
Services	4.1%	
Meters - Regulators	2.6%	
Structures	2.3%	
General	6.7%-13.3%	10%-16.67%

Depreciation accruals charged to expense for the periods ended September 30, 1999 and 1998 totaled \$124,933 and \$113,703, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 1999 are summarized as follows:

	Gas	Water
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 149,575	\$ 219,660
Current Year	16,619	24,407
	\$ 166,194	\$ 244,067
Unamortized Adjustment	\$ 249,290	\$ 366,101

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	1999	1998
<u>CFC</u>		
Capital Term Certificates	\$ 199,438	\$ 200,885
Patronage Capital	99,119	95,606
Memberships	1,000	1,000
	\$ 299,557	\$ 297,491
<u>GCEC</u>		
Patronage Capital	\$ 3,558	\$ 3,558
	\$ 303,115	\$ 301,049

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	1999	1998
<u>Gas</u>		
Rate Filing Costs - In Progress	\$ 16,103	\$ 29,663
Clearing Accounts	624	545
Unamortized Debt Expense	53,822	57,690
	\$ 70,549	\$ 87,898
<u>Water</u>		
Rate Filing Costs - 1993 Case	\$	\$ 2,550
Unamortized Debt Expense	47,729	51,159
Clearing Accounts	140	206
	\$ 47,869	\$ 53,915
	\$ 118,418	\$ 141,813

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for fifteen years with a conversion fee of \$109,457. Amortization expense for the year ended September 30, 1999 is \$7,298.

GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

6. Memberships

Memberships are comprised of the following:

	<u>September 30,</u>	
	<u>1999</u>	<u>1998</u>
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to 1 vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc.; \$5 membership fee, entitled to one vote per membership	17,335	16,750
Class C Memberships		
All others who receive service; \$5 membership fee, entitled to one vote per membership	<u>4,550</u>	<u>4,465</u>
	<u>\$ 26,885</u>	<u>\$ 26,215</u>

7. Accumulated Margins (Deficit)

This balance consists of net margins or (losses) as follows:

Calendar Year	<u>Gas</u>	<u>Water</u>	<u>Total</u>
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,042)	(28,602)	(200,644)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
Nine Months - 1999	<u>104,444</u>	<u>48,776</u>	<u>153,220</u>
	<u>\$ (227,543)</u>	<u>\$ 21,968</u>	<u>\$ (205,575)</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations. Patronage capital will be allocated when all deficits have been recovered.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014:

	September 30,	
	1999	1998
Variable (7.10% - 1999)	\$ 1,407,279	\$ 1,458,316
Variable (6.10% - 1999, 6.25% - 1998)	459,397	473,533
Fixed – 7.450%	531,226	537,318
	\$ 2,397,902	\$ 2,469,167
Less: Current Maturities	75,300	69,800
	<u>\$ 2,322,602</u>	<u>\$ 2,399,367</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$67,757. As of September 30, 1999, annual maturities of long-term debt due CFC for the next five years are as follows:

2000	\$ 75,300
2001	80,800
2002	86,600
2003	93,000
2004	99,800

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	1999	1998
5% Note Maturing May 31, 2033	\$ 167,464	\$ 169,484
Less: Current Maturities	2,100	2,020
	<u>\$ 165,364</u>	<u>\$ 167,464</u>
4.5% Note Maturing November 30, 2036	\$ 288,362	\$ 291,366
Less: Current Maturities	3,100	3,004
	<u>\$ 285,262</u>	<u>\$ 288,362</u>
	<u>\$ 450,626</u>	<u>\$ 455,826</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$2,220. As of September 30, 1999, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2000	\$ 5,200
2001	5,500
2002	5,700
2003	6,100
2004	6,400

10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over five years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 1999 is \$345,540. Annual maturities due to Graham County Electric Cooperative are as follows:

2000	\$ 97,640
2001	105,115
2002	113,165
2003	29,620

11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan is \$220,000, payable in monthly payments of \$1,833 for 120 months. The cooperative is awaiting the final drawdown before repayments will begin. The balance at September 30, 1999 is \$173,951. Annual maturities due to AEPCO are as follows:

2000	\$ 22,000
2001	22,000
2002	22,000
2003	22,000
2004	22,000

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

Intercompany balances between the two cooperatives are summarized as follows:

	<u>September 30,</u>	
	<u>1999</u>	<u>1998</u>
Graham County Utilities, Inc.		
Accounts Receivable	\$ 1,225	\$
Accounts Payable	<u>(54,236)</u>	<u>(68,435)</u>
Net Due to Affiliated Cooperative	<u>\$ (53,011)</u>	<u>\$ (68,435)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 53,011	\$ 68,435
Net Due from Affiliated Cooperative	<u>\$ 53,011</u>	<u>\$ 68,435</u>

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

14. Commitments and Contingencies

The cooperative is aware of issues associated with the programming code in existing computer systems as the millennium (year 2000) approaches. The "year 2000" problem is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two-digit year value to 00. The issue is whether the computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

The cooperative is utilizing internal and external resources to identify, correct and test the systems for the year 2000 compliance.

15. Rate Matters

The cooperative, with the approval of the Arizona Corporation Commission, has instituted new rates for the gas department effective December 1997 and new rates for the water department effective September 1998.

ACCOMPANYING INFORMATION

BRUNICK, BERGARD, GILBERT & MOSS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 14 through 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berg, Sza, Gullit & Moss

Certified Public Accountants

October 28, 1999

BERG, SZA, GULLIT & MOSS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

-14-
GRAHAM COUNTY UTILITIES, INC.

**GAS DEPARTMENT
BALANCE SHEET
SEPTEMBER 30, 1998 AND 1998**

ASSETS

	September 30,	
	1999	1998
UTILITY PLANT		
Plant in Service	\$ 2,243,720	\$ 2,087,038
Construction Work in Progress	13,295	(5,451)
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 2,672,499</u>	<u>\$ 2,497,071</u>
Less: Accumulated Provision for Depreciation and Amortization	1,216,831	1,133,999
	<u>\$ 1,455,668</u>	<u>\$ 1,363,072</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 160,553	\$ 158,413
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$8,023 in 1999 and \$4,503 in 1998)	\$ 43,688	\$ 46,637
Materials and Supplies	70,209	54,610
Other Current and Accrued Assets	21,987	22,627
Total Current Assets	<u>\$ 135,884</u>	<u>\$ 123,874</u>
Deferred Charges	\$ 70,549	\$ 87,898
	<u>\$ 1,822,654</u>	<u>\$ 1,733,257</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 24,385	\$ 23,715
Accumulated Deficit	(227,543)	(363,202)
	<u>\$ (203,158)</u>	<u>\$ (339,487)</u>
LONG -TERM DEBT		
Note Payable - GCEC	\$ 247,900	\$ 345,540
CFC Mortgage Notes Less Current Maturities	1,335,933	1,376,336
	<u>\$ 1,583,833</u>	<u>\$ 1,721,876</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 138,840	\$ 130,482
Accounts Payable - Other	43,245	41,588
Accounts Payable - GCEC	54,236	10,847
Accounts Payable - Water Department	29,155	
Overbilled Consumers Fuel Cost	88,002	62,084
Accrued Taxes	27,469	26,764
Customers' Deposits and Prepayments	49,437	69,952
Accrued Interest	4,401	3,667
Accrued Payroll	7,194	5,484
Total Current Liabilities	<u>\$ 441,979</u>	<u>\$ 350,868</u>
	<u>\$ 1,822,654</u>	<u>\$ 1,733,257</u>

-15-
GRAHAM COUNTY UTILITIES, INC.

**GAS DEPARTMENT
STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998**

	September 30,		Increase (Decrease)
	1999	1998	
OPERATING REVENUES			
Residential	\$ 1,482,022	\$ 1,574,406	\$ (92,384)
Irrigation	18,538	15,858	2,680
Commercial and Industrial	411,146	435,441	(24,295)
Fuel Cost Over-Billed	(24,569)	(45,255)	20,686
Other Operating Revenues	24,060	19,360	4,700
Total Operating Revenues	\$ 1,911,197	\$ 1,999,810	\$ (88,613)
OPERATING EXPENSES			
Purchased Gas	\$ 885,186	\$ 964,995	\$ (79,809)
Operations	160,982	172,274	(11,292)
Maintenance	157,153	93,999	63,154
Customer Accounts	184,484	191,795	(7,311)
Administrative and General	178,651	163,431	15,220
Depreciation and Amortization	82,225	75,516	6,709
Other Interest	39,061	39,773	(712)
Total Operating Expenses	\$ 1,687,742	\$ 1,701,783	\$ (14,041)
OPERATING MARGINS - Before Fixed Charges	\$ 223,455	\$ 298,027	\$ (74,572)
FIXED CHARGES			
Interest on Long-Term Debt	97,449	115,459	(18,010)
OPERATING MARGINS - After Fixed Charges	\$ 126,006	\$ 182,568	\$ (56,562)
Capital Credits	9,130	13,002	(3,872)
NET OPERATING MARGINS	\$ 135,136	\$ 195,570	\$ (60,434)
NONOPERATING MARGINS			
Interest and Investment Income	523	4,296	(3,773)
NET MARGINS	\$ 135,659	\$ 199,866	\$ (64,207)
ACCUMULATED DEFICIT - BEGINNING OF YEAR	(363,202)	(563,068)	
ACCUMULATED DEFICIT - END OF YEAR	\$ (227,543)	\$ (363,202)	

HOLYOKE, EDWARD, GILBERT & MOSE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.

GAS DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	September 30,	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 135,659	\$ 199,866
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	82,833	76,124
Capital Credits - Noncash	(9,130)	(13,093)
Deferred Charges	17,349	(46,653)
Deferred Credits		(65)
Overbilled Fuel Cost	25,918	45,255
Accounts Receivable	2,949	(8,440)
Inventories and Other Current Assets	(14,959)	(6,245)
Payables and Accrued Expenses	(15,709)	9,917
Advances - Water Department	29,155	
Advances - GCEC	43,389	
Net Cash Provided by Operating Activities	\$ 297,454	\$ 256,666
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant/Purchase of Property	\$ (175,429)	\$ (183,239)
Patronage Capital Retirement - CFC	6,990	10,456
Net Cash Used in Investing Activities	\$ (168,439)	\$ (172,783)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (38,990)	\$ (31,356)
Payments on Long-Term Debt - GCEC	(90,695)	(52,782)
Memberships	670	255
Net Cash Used in Financing Activities	\$ (129,015)	\$ (83,883)
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 97,449	\$ 115,459
Federal Income Tax	\$ 0	\$ 0

-17-
GRAHAM COUNTY UTILITIES, INC.

**WATER DEPARTMENT
BALANCE SHEET
SEPTEMBER 30, 1999 AND 1998**

ASSETS

	September 30,	
	1999	1998
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,684,618	\$ 1,432,093
Construction Work in Progress	1,798	112,956
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 2,296,584</u>	<u>\$ 2,155,217</u>
Less: Accumulated Provision for Depreciation and Amortization	863,565	780,439
	<u>\$ 1,433,019</u>	<u>\$ 1,374,778</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 142,562	\$ 142,636
CURRENT ASSETS		
Cash - General	\$ 1,518	\$ 1,518
Accounts Receivable - Customers (Less allowance for uncollectibles of \$5,105 in 1999 and \$3,522 in 1998)	12,870	12,438
Accounts Receivable - Water Department	29,155	
Accounts Receivable - GCEC	1,225	
Materials and Supplies	25,825	23,746
Other Current and Accrued Assets	7,392	7,686
Total Current Assets	<u>\$ 77,985</u>	<u>\$ 45,388</u>
DEFERRED CHARGES	<u>\$ 47,869</u>	<u>\$ 53,915</u>
	<u>\$ 1,701,435</u>	<u>\$ 1,616,717</u>
EQUITIES AND LIABILITIES		
EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins (Deficit)	21,968	(41,287)
	<u>\$ 24,468</u>	<u>\$ (38,787)</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 986,669	\$ 1,023,031
AEPKO - Notes Payable - Advances to Date	151,951	
USDA Rural Development Notes Less Current Maturities	450,626	455,826
	<u>\$ 1,589,246</u>	<u>\$ 1,478,857</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 61,300	\$ 35,038
Accounts Payable - Other	3,129	58,835
Accounts Payable - GCEC		57,588
Accrued Taxes	17,588	16,368
Customers' Deposits and Prepayments	3,800	5,160
Accrued Interest	268	227
Accrued Payroll	1,636	3,431
Total Current Liabilities	<u>\$ 87,721</u>	<u>\$ 176,647</u>
	<u>\$ 1,701,435</u>	<u>\$ 1,616,717</u>

BOLINGER, BEGGS, GILBERT & MOSE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

-18-
GRAHAM COUNTY UTILITIES, INC.

**WATER DEPARTMENT
STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998**

	September 30,		Increase (Decrease)
	1999	1998	
OPERATING REVENUES			
Residential	\$ 422,555	\$ 356,172	\$ 66,383
Commercial and Industrial	39,415	30,033	9,382
Sales for Resale	22,172	18,564	3,608
Other Operating Revenues	2,030	1,990	40
Total Operating Revenues	<u>\$ 486,172</u>	<u>\$ 406,759</u>	<u>\$ 79,413</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 14,346	\$ 15,181	\$ (835)
Operations	40,733	42,902	(2,169)
Maintenance	87,171	66,265	20,906
Customer Accounts	38,794	35,584	3,210
Administrative and General	68,533	65,059	3,474
Depreciation and Amortization	83,126	79,213	3,913
Other Interest	5,641	803	4,838
Total Operating Expenses	<u>\$ 338,344</u>	<u>\$ 305,007</u>	<u>\$ 33,337</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 147,828</u>	<u>\$ 101,752</u>	<u>\$ 46,076</u>
FIXED CHARGES			
Interest on Long-Term Debt	93,072	106,196	(13,124)
OPERATING MARGINS (LOSS) - After Fixed Charges	<u>\$ 54,756</u>	<u>\$ (4,444)</u>	<u>\$ 59,200</u>
Capital Credits	8,096	11,529	(3,433)
NET OPERATING MARGINS	<u>\$ 62,852</u>	<u>\$ 7,085</u>	<u>\$ 55,767</u>
NONOPERATING MARGINS			
Interest	403	1,034	(631)
NET MARGINS	<u>\$ 63,255</u>	<u>\$ 8,119</u>	<u>\$ 55,136</u>
ACCUMULATED DEFICIT - BEGINNING OF YEAR	<u>(41,287)</u>	<u>(49,406)</u>	
ACCUMULATED MARGINS (DEFICIT) - END OF YEAR	<u>\$ 21,968</u>	<u>\$ (41,287)</u>	

BOWEN, STARR, GILBERT & MOSE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

COMPLIANCE AND INTERNAL CONTROL SECTION

SPENCER, STANLEY, CRISTOFER & WONG, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 • 10TH STREET

LUBBOCK, TEXAS 79401-2685

**INDEPENDENT AUDITORS' COMMENT ON CERTAIN
MATTERS FOR CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc., for the years ended September 30, 1999 and 1998, and have issued our report thereon dated October 28, 1999.

Our comments and recommendations, if any, have been detailed in this letter and the Report on Internal Controls. No other written communications with respect to comments or recommendations have been provided.

Accounting Records - The corporation's accounting records were considered adequate in all material respects. The records were maintained in a manner that provides for fair distribution of costs to construction, retirement, maintenance and other expense accounts.

Material Control - The results of the physical inventories of materials and supplies are summarized below.

	<u>Gas</u>	<u>Water</u>
Gross Shortages	\$ (7,156)	\$ (2,119)
Gross Overages	<u>4,332</u>	<u>3,786</u>
Net Overages	<u>\$ (2,824)</u>	<u>\$ 1,667</u>

CFC Loan Fund Advances - During the period of this audit, the corporation did not receive any additional loan fund advances. During the calendar years 1998 and 1997, the cooperative failed to attain the 1.0 TIER rating required by the mortgage agreement. The cooperative is in the process of implementing new water and gas rates.

Service Contracts - There were no material service contracts in effect at the end of the year except for the management and operations agreement with Graham County Electric Cooperative, Inc., previously noted in the Notes to the Financial Statements.

Income Tax Status - The corporation has obtained exemption from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Internal Revenue Form 990 is being filed.

Related Party Transactions - Related party transactions are discussed in Note 11 to the financial statements.

Plant Acquisition Adjustments - In connection with the acquisition of gas and water utility plant, in 1989 an acquisition adjustment was recorded representing the excess of the purchase price over the book value of the acquired property. This adjustment is being amortized over a twenty-five year period with sixteen years remaining in the amortization period.

Bryce, Segal, Gilbert & Associates

Certified Public Accountants

October 28, 1999

BOUNCE, SHOGAN, GILBERT & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

Independent Auditors' Report

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 1999, and have issued our report thereon dated October 28, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

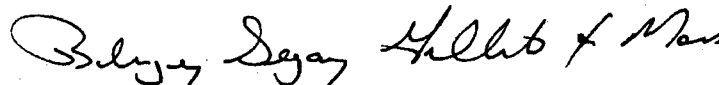
Compliance

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Certified Public Accountants

October 28, 1999

GRAHAM COUNTY UTILITIES, INC.

WATER DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	September 30,	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 63,255	\$ 8,119
Adjustments to Reconcile Net Margins to Net Cash Provided by (Used by) Operating Activities		
Depreciation and Amortization	83,126	79,236
Capital Credits - Noncash	(8,096)	(12,842)
Deferred Charges	6,046	(53,233)
Accounts Receivable	(432)	76,846
Inventories and Other Current Assets	(1,785)	(759)
Payables and Accrued Expenses	(57,600)	52,666
Advances - Water Department	(29,155)	
Advances GCEC	(58,813)	23,801
Net Cash Provided by (Used by) Operating Activities	\$ (3,454)	\$ 173,834
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (141,369)	\$ (152,011)
CFC Patronage Capital Retirement	8,170	11,490
Net Cash Used in Investing Activities	\$ (133,199)	\$ (140,521)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt - AEPCO	\$ 173,951	\$
Payments on Long-Term Debt to CFC	\$ (32,274)	\$ (25,536)
Payments - Other Long-Term Debt	(5,024)	(7,777)
Net Cash Provided by (Used in) Financing Activities	\$ 136,653	\$ (33,313)
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	1,518	1,518
CASH - END OF YEAR	\$ 1,518	\$ 1,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 92,990	\$ 105,918
Federal Income Tax	\$ 0	\$ 0

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

STILLERSON, RINGOLD, SHIMMER & MANN, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GRAHAM COUNTY UTILITIES, INC.
Pima, Arizona

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

TABLE OF CONTENTS

	<u>Page</u> <u>No.</u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	2
Statement of Income and Accumulated Margins (Deficits)	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Accompanying Information	
Independent Auditors' Report on Accompanying Information	13
Individual Department - Financial Statements	
Gas Department	
Balance Sheet	14
Statement of Income and Accumulated Margins (Deficits)	15
Statement of Cash Flows	16
Water Department	
Balance Sheet	17
Statement of Income and Accumulated Margins (Deficits)	18
Statement of Cash Flows	19
Compliance and Internal Control Section	
Independent Auditors' Comment on Certain Matters for CFC Borrowers	20
Independent Auditors' Report: Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

INDEPENDENT AUDITORS' REPORT

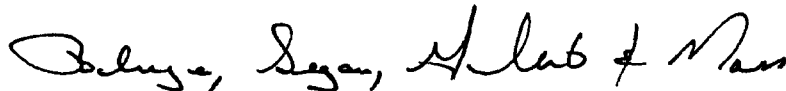
Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the accompanying balance sheet of Graham County Utilities, Inc., as of September 30, 1998 and 1997, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 1998, on our consideration of Graham County Utilities, Inc.'s internal control structure and its compliance with laws and regulations.



Certified Public Accountants

October 29, 1998

-2-
GRAHAM COUNTY UTILITIES, INC.

BALANCE SHEET
SEPTEMBER 30, 1998
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 1997

ASSETS

	September 30, 1998			September 30, 1997 - Total
	Gas	Water	Total	
UTILITY PLANT				
Plant in Service	\$ 2,087,038	\$ 1,432,093	\$ 3,519,131	\$ 3,038,312
Construction Work in Progress	(5,451)	112,956	107,505	281,107
Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
	\$ 2,497,071	\$ 2,155,217	\$ 4,652,288	\$ 4,345,071
Less: Accumulated Provision for Depreciation and Amortization	1,133,999	780,439	1,914,438	1,787,111
	\$ 1,363,072	\$ 1,374,778	\$ 2,737,850	\$ 2,557,960
OTHER PROPERTY AND INVESTMENTS				
Investments in Associated Organizations	\$ 158,413	\$ 142,636	\$ 301,049	\$ 297,059
CURRENT ASSETS				
Cash - General	\$	\$ 1,518	\$ 1,518	\$ 1,518
Accounts Receivable (Less allowance for uncollectibles of \$8,025 in 1998 and \$4,216 in 1997)	46,637	12,438	59,075	48,682
Accounts Receivable - Other				78,799
Materials and Supplies	54,610	23,746	78,356	70,444
Other Current and Accrued Assets	22,627	7,686	30,313	31,221
Total Current Assets	\$ 123,874	\$ 45,388	\$ 169,262	\$ 230,664
DEFERRED CHARGES	\$ 87,898	\$ 53,915	\$ 141,813	\$ 41,927
	\$ 1,733,257	\$ 1,616,717	\$ 3,349,974	\$ 3,127,610
EQUITIES AND LIABILITIES				
MEMBERS' EQUITY				
Memberships	\$ 23,715	\$ 2,500	\$ 26,215	\$ 25,960
Accumulated Deficit	(363,202)	(41,287)	(404,489)	(612,474)
	\$ (339,487)	\$ (38,787)	\$ (378,274)	\$ (586,514)
LONG - TERM DEBT				
CFC Mortgage Notes Less Current Maturities	\$ 1,376,338	\$ 1,023,031	\$ 2,399,367	\$ 2,472,658
Note Payable - GCEC	345,540		345,540	
USDA Rural Development Note Payable Less Current Maturities		455,826	455,826	463,832
	\$ 1,721,876	\$ 1,478,857	\$ 3,200,733	\$ 2,936,490
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 130,482	\$ 35,038	\$ 165,520	\$ 58,196
Accounts Payable - GCEC	10,847	57,588	68,435	533,651
Accounts Payable - Other	41,588	58,835	100,423	42,258
Overbilled Consumers Fuel Cost	62,084		62,084	16,829
Customers' Deposits and Prepayments	69,952	5,160	75,112	74,580
Accrued Taxes	26,764	16,368	43,132	42,353
Accrued Interest	3,667	227	3,894	3,944
Accrued Payroll	5,484	3,431	8,915	5,758
Total Current Liabilities	\$ 350,868	\$ 176,647	\$ 527,515	\$ 777,569
DEFERRED CREDITS	\$	\$	\$	\$ 65
	\$ 1,733,257	\$ 1,616,717	\$ 3,349,974	\$ 3,127,610

See accompanying notes to financial statements

GRAHAM COUNTY UTILITIES, INC.
GRAHAM COUNTY, ARIZONA

-3-
GRAHAM COUNTY UTILITIES, INC.

**STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEAR ENDED SEPTEMBER 30, 1998
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1997**

	September 30, 1998			September 30, 1997 - Total
	Gas	Water	Total	
OPERATING REVENUES	\$ 1,999,810	\$ 406,759	\$ 2,406,569	\$ 1,925,536
OPERATING EXPENSES				
Purchased Gas	\$ 964,995	\$	\$ 964,995	\$ 797,318
Power for Pumping		15,181	15,181	15,265
Operations	172,274	42,902	215,176	190,368
Maintenance	93,999	66,265	160,264	224,453
Consumer Accounts	191,795	35,584	227,379	205,186
Administrative and General	163,431	65,059	228,490	205,252
Depreciation and Amortization	75,516	79,213	154,729	140,030
Taxes				
Other Interest	39,773	803	40,576	33,288
Total Operating Expenses	\$ 1,701,783	\$ 305,007	\$ 2,006,790	\$ 1,811,160
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 298,027	\$ 101,752	\$ 399,779	\$ 114,376
Interest on Long-Term Debt	115,459	106,196	221,655	241,155
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ 182,568	\$ (4,444)	\$ 178,124	\$ (126,779)
Capital Credits	13,002	11,529	24,531	24,827
NET OPERATING MARGINS (LOSS)	\$ 195,570	\$ 7,085	\$ 202,655	\$ (101,952)
NONOPERATING MARGINS				
Interest	4,296	1,034	5,330	205
NET MARGINS (LOSS)	\$ 199,866	\$ 8,119	\$ 207,985	\$ (101,747)
ACCUMULATED DEFICIT - BEGINNING OF YEAR	(563,068)	(49,406)	(612,474)	(510,727)
ACCUMULATED DEFICIT - END OF YEAR	\$ (363,202)	\$ (41,287)	\$ (404,489)	\$ (612,474)

See accompanying notes to financial statements

FINANCIAL STATEMENTS GRAMCO & MORGAN L.L.C.
SEPTEMBER 30, 1998

-4-
GRAHAM COUNTY UTILITIES, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 1998
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1997

	September 30, 1998			September 30, 1997 - Total
	Gas	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Margins (Loss)	\$ 199,866	\$ 8,119	\$ 207,985	\$ (101,747)
Adjustments to Reconcile Net Margins (Loss) to				
Net Cash Provided by Operating Activities				
Depreciation and Amortization	76,124	79,236	155,360	140,640
Capital Credits	(13,093)	(12,842)	(25,935)	(24,827)
Overbilled Fuel Cost	45,255		45,255	20,210
Deferred Charges	(46,653)	(53,233)	(99,886)	(6,497)
Deferred Credits	(65)		(65)	65
Accounts Receivable	(8,440)	76,846	68,406	(66,448)
Inventories and Other Current Assets	(6,245)	(759)	(7,004)	905
Payables and Accrued Expenses	9,917	52,666	62,583	(13,161)
Net Advances - GCEC		23,801	23,801	124,023
Net Cash Provided by Operating Activities	\$ 256,666	\$ 173,834	\$ 430,500	\$ 73,163
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to Plant	\$ (183,239)	\$ (152,011)	\$ (335,250)	\$ (341,897)
CFC Patronage Capital Refunds	10,456	11,490	21,946	21,973
Net Cash Used in Investing Activities	\$ (172,783)	\$ (140,521)	\$ (313,304)	\$ (319,924)
CASH FLOWS FROM FINANCING ACTIVITIES				
FMHA Note Proceeds	\$	\$	\$	\$ 300,000
Payments on Long-Term Debt to CFC	(31,356)	(25,536)	(56,892)	(49,919)
Payments on Long-Term Debt to GCEC	(52,782)		(52,782)	
Payment - USDA-RD		(7,777)	(7,777)	(4,350)
Memberships	255		255	1,030
Net Cash Provided by (Used in) Financing Activities	\$ (83,883)	\$ (33,313)	\$ (117,196)	\$ 246,761
INCREASE IN CASH	\$ 0	\$ 0	\$ 0	\$ 0
CASH - BEGINNING OF YEAR		1,518	1,518	1,518
CASH - END OF YEAR	\$ 0	\$ 1,518	\$ 1,518	\$ 1,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year for:				
Interest on Long-Term Debt	\$ 115,458	\$ 105,918	\$ 221,376	\$ 241,155
Federal Income Tax	\$ 0	\$ 0	\$ 0	\$ 0

See accompanying notes to financial statements

BURNING BROS. COMPANY & ASSOCIATES

1000 WEST 10TH STREET, SUITE 100

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The cooperative accounts for assets, liabilities, income and expense separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 1998 and 1997, was estimated to be \$58,863 and \$60,117 in the gas department and \$39,900 and \$25,529 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as advance billing - fuel cost and costs to be billed in the subsequent period are recorded as unbilled fuel cost. At September 30, 1998, \$62,084 was overbilled, and at September 30, 1997, \$16,829 was overbilled.

Group Concentration of Credit Risk

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of 6%. Deposits on hand totaled \$75,112 and \$74,580 at September 30, 1998 and 1997, respectively.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Statement of Cash Flows

For the purposes of the statement of cash flows, the cooperative considers cash and temporary cash investments to be cash and cash equivalents.

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Federal Income Tax Status

~~The cooperative qualifies for tax-exempt status under Internal Revenue Code section 501(c)(12)~~ with more than 85 percent of income consisting of amounts received from members.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November, 1989. Original cost includes the cost of contracted services, direct labor, materials and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts.

-7-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 1998			September 30, 1997
	Gas	Water	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,706	\$ 80,228	\$ 80,228
Production		387,022	387,022	346,036
Transmission		706,159	706,159	492,824
Distribution	1,970,275	232,633	2,202,908	2,030,921
General	73,150	52,566	125,716	71,205
Land	1,091	16,007	17,098	17,098
Total Plant in Service	\$ 2,087,038	\$ 1,432,093	\$ 3,519,131	\$ 3,038,312
Construction Work in Progress	(5,451)	112,956	107,505	281,107
Electric Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	<u>\$ 2,497,071</u>	<u>\$ 2,155,217</u>	<u>\$ 4,652,288</u>	<u>\$ 4,345,071</u>

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas	Water
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.8%	
Services	4.1%	
Meters - Regulators	2.6%	
Structures	2.3%	
General	6.7%-13.3%	10%-16.67%

Depreciation accruals charged to expense for the periods ended September 30, 1998 and 1997 totaled \$113,703 and \$99,004, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 1998 are summarized as follows:

	Gas	Water
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 132,954	\$ 195,254
Current Year	16,619	24,407
	\$ 149,573	\$ 219,661
Unamortized Adjustment	\$ 265,911	\$ 390,507

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	1998	1997
<u>CFC</u>		
Capital Term Certificates	\$ 200,885	\$ 202,598
Patronage Capital	95,606	89,903
Memberships	1,000	1,000
	\$ 297,491	\$ 293,501
<u>GCEC</u>		
Patronage Capital	\$ 3,558	\$ 3,558
	\$ 301,049	\$ 297,059

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	1998	1997
<u>Gas</u>		
Rate Filing Costs - In Progress	\$ 29,663	\$ 28,182
Rate Filing Costs - 1995 Case		12,186
Clearing Accounts	545	877
Unamortized Debt Expense	57,690	
	\$ 87,898	\$ 41,245
<u>Water</u>		
Rate Filing Costs - 1993 Case	\$ 2,550	\$ 470
Unamortized Debt Expense	51,159	
Clearing Accounts	206	212
	\$ 53,915	\$ 682
	\$ 141,813	\$ 41,927

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for fifteen years with a conversion fee of \$109,457. Amortization expense for September 30, 1998 is \$608.

6. Memberships

Memberships are comprised of the following:

	September 30.	
	1998	1997
Class A Memberships	\$ 5,000	\$ 5,000
Graham County Electric Cooperative, Inc., entitled to 1 vote		
Class B Memberships	16,750	16,640
All qualified members of Graham County Electric Cooperative, Inc.; \$5 membership fee, entitled to one vote per membership		
Class C Memberships	4,465	4,320
All others who receive service; \$5 membership fee, entitled to one vote per membership		
	<u>\$ 26,215</u>	<u>\$ 25,960</u>

7. Accumulated Margins (Deficit)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas	Water	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,042)	(28,602)	(200,644)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
Nine Months - 1998	<u>194,094</u>	<u>16,995</u>	<u>211,089</u>
	<u>\$ (363,202)</u>	<u>\$ (41,287)</u>	<u>\$ (404,489)</u>

The Board of Directors has adopted the policy of netting gains and losses from multiple departments and to carryover net losses to offset subsequent margins. No patronage capital has been allocated from operations which has resulted in net deficits since the inception of the cooperative.

GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014:

	<u>September 30,</u>	
	<u>1998</u>	<u>1997</u>
Variable (7.10% - 1998)	\$ 1,458,316	\$
Variable (6.25% - 1998, 6.25% - 1997)	473,533	1,029,816
Fixed – 7.450%	<u>537,318</u>	<u>1,496,244</u>
	\$ 2,469,167	\$ 2,526,060
Less: Current Maturities	<u>69,800</u>	<u>53,402</u>
	<u>\$ 2,399,367</u>	<u>\$ 2,472,658</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$67,757. As of September 30, 1998, annual maturities of long-term debt due CFC for the next five years are as follows:

1999	\$ 69,800
2000	74,800
2001	80,200
2002	85,900
2003	92,000

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	<u>September 30,</u>	
	<u>1998</u>	<u>1997</u>
5% Note Maturing May 31, 2033	\$ 169,484	\$ 171,148
Less: Current Maturities	<u>2,020</u>	<u>1,922</u>
	\$ 167,464	\$ 169,226
4.5% Note Maturing November 30, 2036	\$ 291,366	\$ 297,478
Less: Current Maturities	<u>3,004</u>	<u>2,872</u>
	<u>\$ 288,362</u>	<u>\$ 294,606</u>
	<u>\$ 455,826</u>	<u>\$ 463,832</u>

-11-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$2,220. As of September 30, 1998, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

1999	\$ 5,024
2000	5,265
2001	5,519
2002	5,783
2003	6,062

10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over five years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 1998 is \$436,236. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

1999	\$ 90,696
2000	97,640
2001	105,116
2002	113,164
2003	29,620

11. Short-Term Borrowing

The cooperative has a line of credit at a variable interest rate available with CFC not to exceed \$140,000. No balances were outstanding on this agreement at September 30, 1998.

12. Related Parties

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

-12-
GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

Intercompany balances between the two cooperatives are summarized as follows:

	<u>September 30,</u>	
	<u>1998</u>	<u>1997</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (68,435)	\$ (533,651)
Net Due to Affiliated Cooperative	<u>\$ (68,435)</u>	<u>\$ (533,651)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 68,435	\$ 533,651
Net Due from Affiliated Cooperative	<u>\$ 68,435</u>	<u>\$ 533,651</u>

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

14. Commitments and Contingencies

The cooperative is aware of issues associated with the programming code in existing computer systems as the millennium (year 2000) approaches. The "year 2000" problem is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two-digit year value to 00. The issue is whether the computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

The cooperative is utilizing internal and external resources to identify, correct and test the systems for the year 2000 compliance.

15. Rate Matters

The net margins for the calendar years 1996 and 1997 failed to achieve the required 1:0 TIER ratio. The cooperative, with the approval of the Arizona Corporation Commission, instituted new rates for the gas department in November 1996. In addition, the company is in the process of assembling the necessary information to file for rate increases in both the gas and water department.

ACCOMPANYING INFORMATION

COMPANION, BUREAU, FILMSTRIP & PHOTO. 4.11.10.
FILMSTRIP, BUREAU, FILMSTRIP & PHOTO. 4.11.10.

**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audit of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 14 through 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balmer, Segar, H. H. & Moss

Certified Public Accountants

October 29, 1998

-14-
GRAHAM COUNTY UTILITIES, INC.

**GAS DEPARTMENT
BALANCE SHEET
SEPTEMBER 30, 1998 AND 1997**

ASSETS

	September 30,	
	1998	1997
UTILITY PLANT		
Plant in Service	\$ 2,087,038	\$ 1,904,344
Construction Work in Progress	(5,451)	(220)
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 2,497,071</u>	<u>\$ 2,319,608</u>
Less: Accumulated Provision for Depreciation and Amortization	1,133,999	1,063,651
	<u>\$ 1,363,072</u>	<u>\$ 1,255,957</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 158,413	\$ 155,776
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$4,503 in 1998 and \$1,715 in 1997)	\$ 46,637	\$ 38,197
Materials and Supplies	54,610	47,585
Other Current and Accrued Assets	22,627	23,407
Total Current Assets	<u>\$ 123,874</u>	<u>\$ 109,189</u>
Deferred Charges	\$ 87,898	\$ 41,245
	<u>\$ 1,733,257</u>	<u>\$ 1,562,167</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 23,715	\$ 23,460
Accumulated Deficit	(363,202)	(563,068)
	<u>\$ (339,487)</u>	<u>\$ (539,608)</u>
LONG -TERM DEBT		
Note Payable - GCEC	\$ 345,540	\$
CFC Mortgage Notes Less Current Maturities	1,376,336	1,417,778
	<u>\$ 1,721,876</u>	<u>\$ 1,417,778</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 130,482	\$ 29,701
Accounts Payable - Other	41,588	33,818
Accounts Payable - GCEC	10,847	499,864
Overbilled Consumers Fuel Cost	62,084	16,829
Accrued Taxes	26,764	26,105
Customers' Deposits and Prepayments	69,952	69,490
Accrued Interest	3,667	3,711
Accrued Payroll	5,484	4,414
Total Current Liabilities	<u>\$ 350,868</u>	<u>\$ 683,932</u>
DEFERRED CREDITS	\$	\$ 65
	<u>\$ 1,733,257</u>	<u>\$ 1,562,167</u>

-15-
GRAHAM COUNTY UTILITIES, INC.

**GAS DEPARTMENT
STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997**

	<u>September 30,</u>		<u>Increase (Decrease)</u>
	<u>1998</u>	<u>1997</u>	
OPERATING REVENUES			
Residential	\$ 1,574,406	\$ 1,208,161	\$ 366,245
Irrigation	15,858	13,054	2,804
Commercial and Industrial	435,441	321,116	114,325
Fuel Cost Over Billed	(45,255)	(20,210)	(25,045)
Other Operating Revenues	19,360	11,970	7,390
Total Operating Revenues	<u>\$ 1,999,810</u>	<u>\$ 1,534,091</u>	<u>\$ 465,719</u>
OPERATING EXPENSES			
Purchased Gas	\$ 964,995	\$ 797,318	\$ 167,677
Operations	172,274	149,427	22,847
Maintenance	93,999	123,974	(29,975)
Customer Accounts	191,795	175,160	16,635
Administrative and General	163,431	152,652	10,779
Depreciation and Amortization	75,516	70,962	4,554
Taxes			0
Other Interest	39,773	30,003	9,770
Total Operating Expenses	<u>\$ 1,701,783</u>	<u>\$ 1,499,496</u>	<u>\$ 202,287</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 298,027</u>	<u>\$ 34,595</u>	<u>\$ 263,432</u>
FIXED CHARGES			
Interest on Long-Term Debt	<u>115,459</u>	<u>123,664</u>	<u>(8,205)</u>
OPERATING MARGINS (LOSS) - After Fixed Charges	<u>\$ 182,568</u>	<u>\$ (89,069)</u>	<u>\$ 271,637</u>
Capital Credits	<u>13,002</u>	<u>12,505</u>	<u>497</u>
NET OPERATING MARGINS (LOSS)	<u>\$ 195,570</u>	<u>\$ (76,564)</u>	<u>\$ 272,134</u>
NONOPERATING MARGINS			
Interest and Investment Income	<u>4,296</u>		<u>4,296</u>
NET MARGINS (LOSS)	<u>\$ 199,866</u>	<u>\$ (76,564)</u>	<u>\$ 276,430</u>
ACCUMULATED DEFICIT - BEGINNING OF YEAR	<u>(563,068)</u>	<u>(486,504)</u>	
ACCUMULATED DEFICIT - END OF YEAR	<u>\$ (363,202)</u>	<u>\$ (563,068)</u>	

GRAHAM COUNTY UTILITIES, INC.

GAS DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	September 30,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ 199,866	\$ (76,564)
Adjustments to Reconcile Net Margins (Loss) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	76,124	71,569
Capital Credits - Noncash	(13,093)	(12,505)
Deferred Charges	(46,653)	(18,716)
Deferred Credits	(65)	65
Overbilled Fuel Cost	45,255	20,210
Accounts Receivable	(8,440)	9,941
Inventories and Other Current Assets	(6,245)	204
Payables and Accrued Expenses	9,917	(7,807)
Advances - GCEC		103,429
Net Cash Provided by Operating Activities	\$ 256,666	\$ 89,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant/Purchase of Property	\$ (183,239)	\$ (74,712)
Patronage Capital Retirement - CFC	10,456	11,646
Net Cash Used in Investing Activities	\$ (172,783)	\$ (63,066)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (31,356)	\$ (27,790)
Payments on Long-Term Debt - GCEC	(52,782)	
Memberships	255	1,030
Net Cash Used in Financing Activities	\$ (83,883)	\$ (26,760)
INCREASE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR		
CASH - END OF YEAR	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 115,458	\$ 123,664
Federal Income Tax	\$ 0	\$ 0

-17-
GRAHAM COUNTY UTILITIES, INC.

**WATER DEPARTMENT
BALANCE SHEET
SEPTEMBER 30, 1998 AND 1997**

ASSETS

	September 30,	
	1998	1997
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,432,093	\$ 1,133,968
Construction Work in Progress	112,956	281,327
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 2,155,217</u>	<u>\$ 2,025,463</u>
Less: Accumulated Provision for Depreciation and Amortization	780,439	723,460
	<u>\$ 1,374,778</u>	<u>\$ 1,302,003</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 142,636	\$ 141,283
CURRENT ASSETS		
Cash - General	\$ 1,518	\$ 1,518
Accounts Receivable - Customers (Less allowance for uncollectibles of \$3,522 in 1998 and \$2,501 in 1997)	12,438	10,485
Accounts Receivable - Other		78,799
Materials and Supplies	23,746	22,859
Other Current and Accrued Assets	7,686	7,814
Total Current Assets	<u>\$ 45,388</u>	<u>\$ 121,475</u>
DEFERRED CHARGES	\$ 53,915	\$ 682
	<u>\$ 1,616,717</u>	<u>\$ 1,565,443</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Deficit	(41,287)	(49,406)
	<u>\$ (38,787)</u>	<u>\$ (46,906)</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,023,031	\$ 1,054,880
USDA Rural Development Notes Less Current Maturities	455,826	463,832
	<u>\$ 1,478,857</u>	<u>\$ 1,518,712</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 35,038	\$ 28,495
Accounts Payable - Other	58,835	8,440
Accounts Payable - GCEC	57,588	33,787
Accrued Taxes	16,368	16,248
Customers' Deposits and Prepayments	5,160	5,090
Accrued Interest	227	233
Accrued Payroll	3,431	1,344
Total Current Liabilities	<u>\$ 176,647</u>	<u>\$ 93,637</u>
	<u>\$ 1,616,717</u>	<u>\$ 1,565,443</u>

GRAHAM COUNTY UTILITIES, INC.

WATER DEPARTMENT
STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	September 30,		Increase (Decrease)
	1998	1997	
OPERATING REVENUES			
Residential	\$ 356,172	\$ 340,345	\$ 15,827
Commercial and Industrial	30,033	31,050	(1,017)
Sales for Resale	18,564	18,230	334
Other Operating Revenues	1,990	1,820	170
Total Operating Revenues	\$ 406,759	\$ 391,445	\$ 15,314
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 15,181	\$ 15,265	\$ (84)
Operations	42,902	40,941	1,961
Maintenance	66,265	100,479	(34,214)
Customer Accounts	35,584	30,026	5,558
Administrative and General	65,059	52,600	12,459
Depreciation and Amortization	79,213	69,068	10,145
Taxes			0
Other Interest	803	3,285	(2,482)
Total Operating Expenses	\$ 305,007	\$ 311,664	\$ (6,657)
OPERATING MARGINS - Before Fixed Charges	\$ 101,752	\$ 79,781	\$ 21,971
FIXED CHARGES			
Interest on Long-Term Debt	106,196	117,491	(11,295)
OPERATING LOSS - After Fixed Charges	\$ (4,444)	\$ (37,710)	\$ 33,266
Capital Credits	11,529	12,322	(793)
NET OPERATING MARGINS (LOSS)	\$ 7,085	\$ (25,388)	\$ 32,473
NONOPERATING MARGINS			
Interest	1,034	205	829
NET MARGINS (LOSS)	\$ 8,119	\$ (25,183)	\$ 33,302
ACCUMULATED DEFICIT - BEGINNING OF YEAR	(49,406)	(24,223)	
ACCUMULATED DEFICIT - END OF YEAR	\$ (41,287)	\$ (49,406)	

GRAHAM COUNTY UTILITIES, INC.

WATER DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	September 30,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ 8,119	\$ (25,183)
Adjustments to Reconcile Net Margins (Loss) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	79,236	69,071
Capital Credits - Noncash	(12,842)	(12,322)
Deferred Charges	(53,233)	12,219
Accounts Receivable	76,846	(76,389)
Inventories and Other Current Assets	(759)	701
Payables and Accrued Expenses	52,666	(5,354)
Advances GCEC	23,801	20,594
Net Cash Provided by (Used in) Operating Activities	\$ 173,834	\$ (16,663)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (152,011)	\$ (267,185)
CFC Patronage Capital Retirement	11,490	10,327
Net Cash Used in Investing Activities	\$ (140,521)	\$ (256,858)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt - FMHA	\$	\$ 300,000
Payments on Long-Term Debt to CFC	(25,536)	(22,129)
Payments - Other Long-Term Debt	(7,777)	(4,350)
Net Cash Provided by (Used in) Financing Activities	\$ (33,313)	\$ 273,521
INCREASE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	1,518	1,518
CASH - END OF YEAR	\$ 1,518	\$ 1,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid during the year for:		
Interest on Long-Term Debt	\$ 105,918	\$ 117,491
Federal Income Tax	\$ 0	\$ 0

COMPLIANCE AND INTERNAL CONTROL SECTION

Approved: [Signature] Date: [Date]
[Signature] [Name]
[Title]

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

**INDEPENDENT AUDITORS' COMMENT ON CERTAIN
MATTERS FOR CFC BORROWERS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

~~We have audited the financial statements of Graham County Utilities, Inc., for the years ended September 30, 1998 and 1997, and have issued our report thereon dated October 29, 1998.~~

Our comments and recommendations, if any, have been detailed in this letter and the Report on Internal Controls. No other written communications with respect to comments or recommendations have been provided.

Accounting Records - The corporation's accounting records were considered adequate in all material respects. The records were maintained in a manner that provides for fair distribution of costs to construction, retirement, maintenance and other expense accounts.

Material Control - The results of the physical inventories of materials and supplies are summarized below.

	<u>Gas</u>	<u>Water</u>
Gross Shortages	\$ 3,307	\$ 2,740
Gross Overages	<u>4,282</u>	<u>6,916</u>
Net Overages	<u>\$ 975</u>	<u>\$ 4,176</u>

CFC Loan Fund Advances - During the period of this audit, the corporation did not receive any additional loan fund advances. During the calendar years 1997 and 1996, the cooperative failed to attain the 1.0 TIER rating required by the mortgage agreement. The cooperative is in the process of implementing new water and gas rates.

Service Contracts - There were no material service contracts in effect at the end of the year except for the management and operations agreement with Graham County Electric Cooperative, Inc., previously noted in the Notes to the Financial Statements.

Income Tax Status - The corporation has obtained exemption from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Internal Revenue Form 990 is being filed.

Plant Acquisition Adjustments - In connection with the acquisition of gas and water utility plant, in 1989 an acquisition adjustment was recorded representing the excess of the purchase price over the book value of the acquired property. This adjustment is being amortized over a twenty-five year period with seventeen years remaining in the amortization period.

Certified Public Accountants

October 29, 1998

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1023 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

Independent Auditors' Report

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 1998, and have issued our report thereon dated October 29, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bolinger, Segars, Gilbert & Moss

Certified Public Accountants

October 29, 1998